

The Regulation and Structure of Collective Investment Vehicles in the United Kingdom

AEI Seminar

18th May 2006

Agenda

- 1. Introduction/Industry Developments**
- 2. CIS Industry Relationships**
- 3. Role of the Authorised Fund Manager**
- 4. Role of the Depositary**
- 5. Other Roles and Responsibilities**
- 6. Questions**

Introduction

- **Before 1997 open ended retail collective investment schemes in the UK were set up as unit trusts**
- **Open Ended Investment Companies (OEICs) were introduced in 1997 to sell UK funds cross border into the EU**
- **New FSA regulations and some additional innovative product characteristics**

Industry Developments

Key developments include:

- Company structure better suited to European market.
- Introduction of a single pricing methodology.
- The OEIC Regulations require an OEIC to have an Authorised Corporate Director (ACD) but Independent Directors are also permitted.
- Umbrella structure with tailored share classes permitted in each sub fund.

Comparative Legal Structures

Unit Trust

- Trust law
- Independent trustee holds assets in trust on behalf of investors.
- Trustee issues and redeems units
- Investors are legal owners of units, reflecting their beneficial interest in underlying assets.
- Trustee responsible for custody and oversight

OEIC

- Company law
- Company owns underlying assets and issues and redeems shares
- Investors own shares reflecting interest in underlying assets.
- Must have authorised corporate director as a minimum.
- Depositary responsible for custody and oversight

Industry Developments

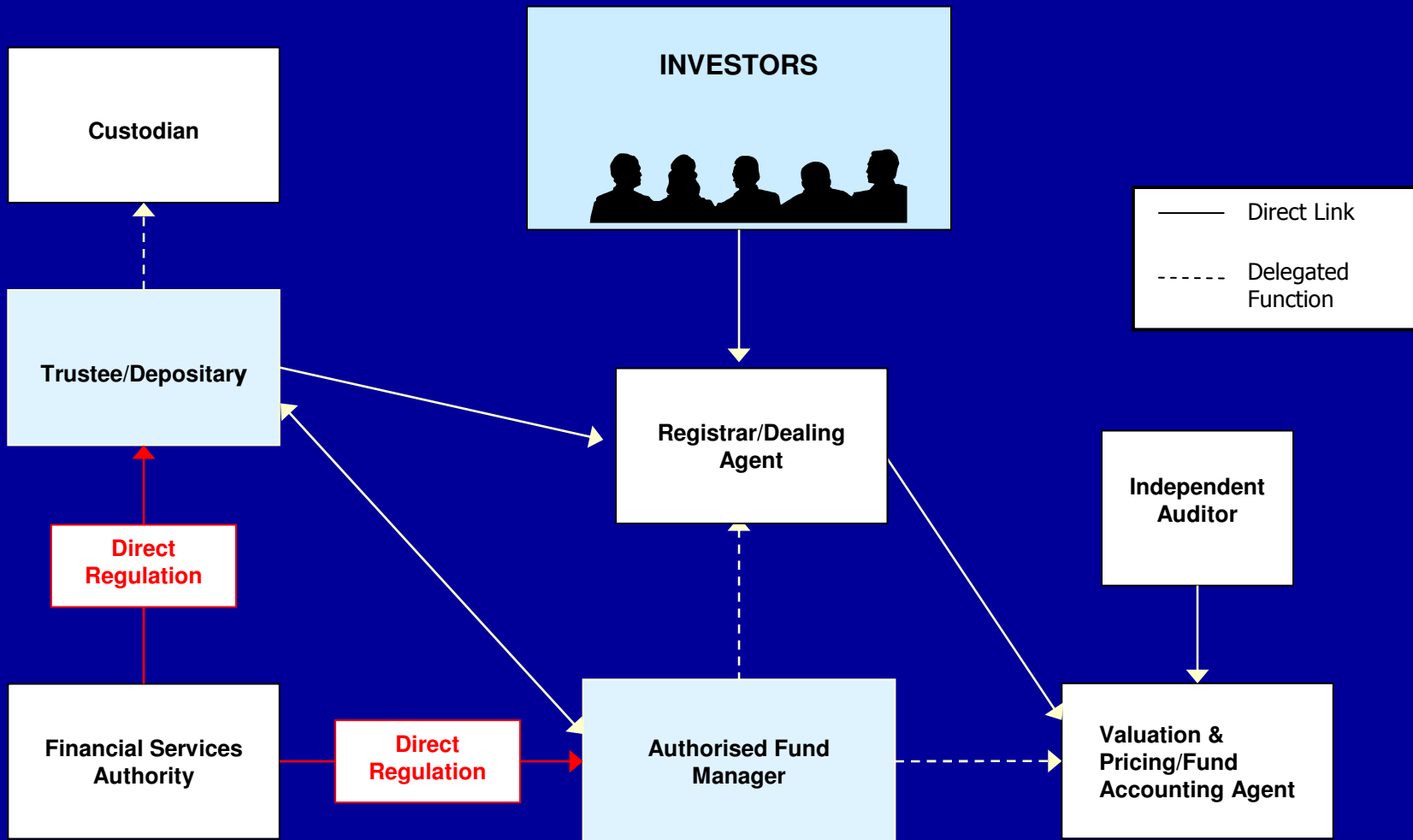
But fundamental regulatory safeguards remain the same.

- Independent Trustee (Depositary for OEICS) to safeguard the scheme's assets.
- Clearly defined fiduciary duty of both parties detailed in Financial Services Authority' regulations.
- Schemes must be authorised by FSA prior to being sold to retail investors.
- Regulations relating to system and controls, approved persons regime, conduct of business applicable to both parties.

A New Regulatory Regime

- **In 2004 FSA introduced a new regulatory Regime for collective investment schemes, known as COLL.**
 - FSA has moved to a more principles based regime.
 - Further harmonisation with the EU UCITS Directive.
 - Further amendments by FSA have removed almost all of the differences between the two products.

CIS Industry Relationships



Role of the Authorised Fund Manager (ACD or unit trust manager)

The AFM is responsible for:

- **Day to day investment decisions of the fund, either in house or delegated to an Investment Adviser**
- **Dealing in units of the scheme with investors or their agents**
- **Pricing of scheme assets**
- **Maintaining financial records and preparing report and accounts.**

Where any functions delegated to third parties, manager ultimately responsible for compliance with regulations.

Role of the Depositary

The Depositary is responsible for:

- **Safeguarding assets of scheme**
- **Oversight of all AFM's activities in relation to operation of scheme**
- **Reviewing procedures and controls operated by the AFM, including any delegated functions,**
- **Ensuring compliance with scheme documentation and relevant regulations.**

Role of the Depositary

The requirement of the depositary to be independent from the AFM and the ability to look at all aspects of the AFM's activities, in relation to the operation of the scheme, are knowingly super- equivalent to the EU's UCITS Directive.

The depositary has no responsibility for fund performance.

Other Roles and Responsibilities

- **Registrar/Transfer agent** - responsible for recording and settling unit deals and distribution of income to investors.
- **Pricing and Fund Accounting** — responsible for valuing the scheme and preparing report and accounts.
- **Independent Auditors** — responsible for auditing the annual report and accounts.

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