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Response by email to cp24-18@fca.org.uk

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Response to FCA CP24/18 Widening LTAF access – amending NURS second scheme rules to facilitate LTAF investment

We, the Association of Real Estate Funds¹ (AREF), welcome the opportunity to respond to the FCA's consultation on widening LTAF access by amending non-UCITS retail schemes (NURSs) second scheme rules to facilitate LTAF investment. We have supported the proposed changes previously in our responses to CP21/12 (Q13) and CP22/14 (Q11).

DB pension schemes have found investing in illiquid assets, such as real estate funds, provided them with long-term growth and regular income. This should be the same for DC pension schemes but there are currently some barriers to DC pension schemes investing in illiquid assets through LTAFs, which can lead to less funding for new housing and infrastructure. We are delighted that the FCA are addressing one of these barriers. We look forward to the FCA and the Government addressing the other barriers such as the operational difficulties that DC pension schemes face in investing in LTAFs and other funds with notice periods accessed through platforms.

We believe that there is a strong case for a broader review of the second scheme rules. The issue identified with the LTAF is not unique to the LTAF. Other regular arrangements for investment in real estate as an asset class may also be precluded by the second scheme rules. Examples we have encountered include:

- A multi asset NURS investing in a real estate NURS (PAIF) which wishes to hold properties in joint ventures in the form of limited partnerships or unit trusts;
- A multi asset NURS investing in a real estate NURS (PAIF) which wishes to hold the portfolio on a pooled basis in a Co-ownership Authorised Contractual Scheme with a pension product and a life insurance product offered by the same manager.

We appreciate the FCA wish to prevent circular investment, but we believe this should be addressed with a targeted rule on circular investment rather than just individual rules for NURS investing in specific fund structures such as the LTAF.

We also would like the FCA to make changes to COLL 6.6.12R (Non-UCITS Retail Schemes), 8.5.4R (Qualified Investor Schemes) and COLL 15.7.7R (Long Term Asset Funds) which currently require property to be held in the name of the depositary or its delegate. AREF supports the UK Depositary Association's view that these rules should

¹ The Association of Real Estate Funds represents the UK real estate funds industry and has over 50 member funds with a collective net asset value of more than £50 billion under management on behalf of their investors. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the MSCI/AREF UK Quarterly Property Funds Index and the AREF Property Fund Vision Handbook.

be amended to allow the option for certain types of other assets that place rights and obligations on the registered owner to be held in the name of the scheme (where the scheme has a legal personality) or in the name of the AFM on behalf of the scheme. The existing registration requirements give rise to unnecessary operational and legal complexity and costs in funds' asset transactions. In our view, implementing such changes may support the FCA's objective to promote effective competition in the interests of consumers, as well as the growth of private and alternative assets in the UK including the LTAF and the FCA's international competitiveness and growth objective.

Please find our answers to the questions in Chapter 3 of the consultation paper below. If you would like to discuss any aspect of our response please contact either myself (prichards@aref.org.uk) or Jacqui Bungay (jbungay@aref.org.uk), Head of Policy at AREF.

Yours sincerely



Paul Richards

CEO, The Association of Real Estate Funds

Question 3.1: Do you agree with our proposals to exempt LTAFs from COLL 5.6.10R(3) to allow investment access for NURS? If not, why not?

Yes, we do agree with the FCA's proposals to exempt LTAFs from COLL 5.6.10R(3) to allow investment access for NURS.

Question 3.2: Are there any other changes we should make to facilitate investment by NURSs in LTAFs without unduly increasing risks for investors?

We have no suggestions for other changes the FCA should make to facilitate investment by NURSs in LTAFs without unduly increasing risks for investors.

Question 3.3: Do you agree with our proposed provisions at COLL 5.6.10DR and 5.6.10EG setting expectations for NURS managers, when they invest in LTAFs, to ensure that they can meet their obligations to investors in the NURS to enable redemptions? If not, why not?

We don't object to the proposed provisions in COLL 5.6.10DR and 5.6.10EG setting expectations for NURS managers, when they invest in LTAFs, to ensure that they can meet their obligations to investors in the NURS to enable redemptions.

Question 3.4: Do you agree with our proposed minor amendments to COLL 5.7.7R(3) and COLL 5.7.7AG(2) for NURS FAIF managers in line with our proposed provisions for NURS managers at COLL 5.6.10DR and 5.6.10EG?

We have no objections to the proposed minor amendments to COLL 5.7.7R(3) and COLL 5.7.7AG(2) for NURS FAIF managers to bring them in line with the proposed provisions for NURS managers at COLL 5.6.10DR and 5.6.10EG?