

Mr Jeremy Dow
CISPR Department
Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

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Dear Mr Dow

UKSIP Response to FSA Consultation Paper 135

New Collective Investment Scheme Products

The UK Society of Investment Professionals welcomes the opportunity to respond to The Financial Services Authority Consultation Paper 135 – New Collective Investment Scheme Products. The majority of the proposals made in this paper reflect our members thinking. There are several areas where UKSIP has comments or suggestions on the proposals.

About UKSIP

The UK Society of Investment Professionals (UKSIP) has over 4,000 investment professionals as its members. The majority of these members also belong to the Association for Investment Management and Research (AIMR) the global standards body of which UKSIP is the UK-based Society. Both AIMR and UKSIP provide support for the Chartered Financial Analyst (CFA) designation and over 100,000 candidates sat parts of the CFA exams in 2001. Currently there are 1,321 CFA Charterholders in the UK and, during 2002, over 5,000 candidates sat the three levels of the CFA examination here.

With professional excellence at the core of its objectives, UKSIP runs the Investment Management Certificate, the entry level qualification of choice for those wishing to become investment analysts or fund managers in the UK and for those seeking an introduction to investment management.

UCITS Amending Directive

Definitional Changes: “Higher Volatility Fund”- Question 3.3. There are several issues contained in your suggestions that would benefit from further explanation or guidance:

- “volatility” can extend across a very wide range across a variable time scale which will make it difficult to determine when a fund becomes a “higher volatility fund” on a consistent basis across the number of different types of assets classes and investment techniques available,
- the move away from use of low, medium and high risk classifications for funds may add to confusion and concern on the part of investors and advisors seeking clarity about suitability of products for their and their customer’s situation at the time of purchase and thereafter,

Derivative Use:

- Treatment of Purchased Options: Question 3.5. There should be as much clarity as possible concerning the treatment of purchased options. They should be treated as you propose.
- Risk Management Process: Question 3.6. Does FSA intend to reserve the right to question the risk management process notified to them by AFM’s? If so, will there be an agreed time frame for any analysis to be conducted? Detailed analysis may stretch available resources and lead to unacceptable delays in approving new schemes as well as changes to existing structures. Further, how will potential differences between FSA, the AFM and the scheme depositary be resolved concerning the type of risk management system to be used and how it will be used to interact with the scheme management procedures? These systems can be very expensive to develop, install and manage; may meet some requirements very well and others not so well; are based upon average movements rather than the major exceptions which occur from time to time and may not be as safe as EPM. FSA should be able to provide rapid turn around to any actual notifications and should be prepared to respond to proposals put forward prior to any expenditure being incurred.

Additional guidance on these areas would be beneficial.

Limited Issue and Guaranteed Funds

Limited Issue Funds (LIF’s) are generally welcomed as useful additions to the management of Collective Investment Schemes.

- Your discussion concentrates on the link between LIF’s and Guaranteed funds but there will also be other applications such as a move away from actual investment assets towards structured products which may be both cheaper to manage and provide a more defined return to investors. Scheme particulars will need to make this clear and consideration will need to be given to how the fund is valued prior to the maturity date.
- AFM’s will need to be very specific in Key Features documents concerning the fee structures they will be imposing on investors to achieve the desired number of shares in issue and proper warnings provided concerning the potential high cost of exit at a time of need.

Guaranteed Funds are welcomed as providing more clarity to investors than is currently available without the use of the word “Guaranteed”. There are a number of considerations in your proposals that would benefit from additional guidance and disclosure.

- Who will be the owner and beneficiary of the guarantee issued by a regulated third party,
- Will the guarantee need to provide for an automatic payment to be made to the fund at maturity should it be required,
- Will FSA establish the minimum protection requirements for guarantees or be able to refuse any proposed guarantee put forward by the AFM,
- How will the guarantee be valued during its life for the purpose of fund accounting,
- Will the costs of obtaining the guarantee be disclosed and compared to the costs of obtaining the same cover without a formal guarantee. There will be a considerable cost difference to the investor that may impact upon their decision to purchase a “guaranteed” fund,
- Will FSA want to be informed by the AFM if the issuer of the guarantee requires them to agree to alter their disclosed investment management process when requested to at a time in the future for the purpose of limiting the risk of a large payout under the guarantee,

Clarification on these points would be welcomed.

Should you have any specific questions or wish to discuss any of our comments, please contact me and I will arrange for the appropriate members to respond.

Yours sincerely

J E Rogers
Chief Executive