

# Requirements for an FCA-Authorised Full-Scope AIFM



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## 1. Application and Code

	UK AIFM of a UK AIF	UK AIFM of a non-UK AIF marketed in the UK	UK AIFM of a non-UK AIF not marketed in the UK
	[●] denotes an applicable Rule in this document	[●] denotes an applicable Rule in this document	[●] denotes an applicable Rule in this document
Pre-Investment Obligations	All	All	None
Periodic Investor Disclosures	All	All	Only Rules 3 and 5
Annual Report of an AIF	All	All	None
Regulatory Reporting	See Schedule 1	See Schedule 1	See Schedule 2
Liquidity	All	All	All
Risk Management	All	All	All
Prime Brokerage Firms	All	All	All
Valuation	All	All	All
Delegation	All	All	All
Depositories	Only Rules 37, 38, 42, 43, 44, 45, 47	Only Rules 37, 39, 40, 41, 46, 47	None

## 2. Definitions

Term	Definition
AIF	Alternative Investment Fund: a collective investment undertaking, including investment compartments thereof, which: <ul style="list-style-type: none"> <li>• Raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors; and</li> <li>• Is not a UK UCITS.<sup>1</sup></li> </ul>
AIFM	Alternative investment fund manager.
Closed-ended	A closed-ended AIF is one that has no redemption rights exercisable during the period of five years from the date of the initial investments. <sup>2</sup>

<sup>1</sup> <https://www.handbook.fca.org.uk/handbook/glossary/G3104.html#:~:text=a%20collective%20investment%20undertaking%2C%20including,benefit%20of%20those%20investors%3B%20and>.

<sup>2</sup> FUND 3.11.12.

Term	Definition
<b>Custodial assets</b>	<p>Financial instruments are custodial assets if:</p> <ul style="list-style-type: none"> <li>• They cannot physically be delivered to the depositary; and</li> <li>• They are transferable securities including those which embed derivatives, money market instruments or units of collective investment undertakings; and</li> <li>• They are capable of being registered or held in an account directly or indirectly in the name of the depositary; or</li> <li>• They are able to be physically delivered to the depositary (including if the financial instruments belong to the AIF or the AIFM acting on behalf of the AIF).</li> </ul> <p>Financial instruments which, in accordance with applicable national law, are only directly registered in the name of the AIF with the issuer itself or its agent, such as a registrar or a transfer agent, shall not be held in custody.<sup>3</sup></p> <p>An AIF that invests in custodial assets either:</p> <ul style="list-style-type: none"> <li>• Generally invest in AIF custodial assets; or</li> <li>• Does not generally invest in issuers or non-listed companies in order to potentially acquire control over such companies.<sup>4</sup></li> </ul> <p>An AIF does not generally invest in AIF custodial assets if it invests in such assets on a temporary basis or if those assets do not constitute a significant proportion of its overall assets.<sup>5</sup></p>
<b>FCA</b>	Financial Conduct Authority.
<b>Leverage</b>	Any method by which an AIFM increases the exposure of an AIF it manages whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. <sup>6</sup>
<b>TRS</b>	Total Return Swap: A transaction which is either a repurchase transaction, securities or commodities lending and securities or commodities borrowing, a buy/sell-back transaction or sell/buy-back transaction, and a margin lending transaction. <sup>7</sup>
<b>SFT</b>	Securities Financing Transaction: A derivative contract in which one counterparty transfers the total economic performance including income from interest and fees, gains and losses from price movements and credit losses of a reference obligation to another counterparty. <sup>8</sup>
<b>UCITS</b>	Undertaking for the collective investment in transferable securities.

### 3. Pre-Investment Obligations<sup>9</sup>

Rule	Obligation
<p>1. ● ●</p> <p><b><i>An AIFM must, for each UK AIF it manages, and for each AIF it markets in the UK, in line with the instrument constituting the fund, make certain disclosures of information to investors before they invest.<sup>10</sup></i></b></p>	The AIFM must disclose the information prescribed in Annex 1, and any material changes to it.

<sup>3</sup> FUND 3.11.22.

<sup>4</sup> FUND 3.11.12.

<sup>5</sup> FUND 3.11.13.

<sup>6</sup> <https://www.handbook.fca.org.uk/handbook/glossary/G3129.html#:~:text=any%20method%20by%20which%20an,or%20by%20any%20other%20means>.

<sup>7</sup> Article 3(9) of the UK version of the Securities Financing Transactions Regulation which is part of UK Law by virtue of the European Union (Withdrawal) Act 2018

<sup>8</sup> Article 3(18) of the EU Securities Financing Transaction Regulation.

<sup>9</sup> FUND 3.2. More granular detail can be found in [Articles 108 and 109 of the AIFMD Level 2 Regulation](#)

<sup>10</sup> FUND 3.2.2/FUND 3.2.3/FUND 3.2.4.

## 4. Periodic Investor Disclosures<sup>11</sup>

Rule		Obligation
2. ● ●	<i>An AIFM must, for each UK AIF it manages, and each AIF it markets in the UK, make specific periodic disclosures to its investors.<sup>12</sup></i>	The AIFM must periodically disclose the information prescribed in Annex 2.
3. ● ● ●	<i>A full-scope UK AIFM of an AIF that uses SFTs or TRSs must make certain further disclosures to investors before they invest.<sup>13</sup></i>	The AIFM of an AIF must provide further information as set out under the Securities Financing Transactions Regulation (see Annex 3).
4. ● ●	<i>If an AIFM makes the AIF it manages available to retail clients in the UK, it must comply with the additional prior disclosures of information required by the PRIIPs Regulations.<sup>14</sup></i>	In addition to the disclosures above, the AIF must prepare a key information document or, if the AIF is a non-UCITS retail scheme, a key information documents or a NURS-KII document.
5. ● ● ●	<i>No bearer units in a collective investment scheme may be issued, converted or cancelled from 1 January 2021.<sup>15</sup></i>	There is prohibition on issuing, converting or cancelling bearer instruments.

## 5. Annual Report of an AIF<sup>16</sup>

Rule		Obligation
6. ● ● ●	<i>An AIFM must, for each UK AIF it manages and for each AIF it markets in the UK, provide an annual report.<sup>17</sup></i>	<p>This annual report must:</p> <ul style="list-style-type: none"> <li>• Be available to investors for each financial year, no later than six months after the end of the financial year;<sup>18</sup></li> <li>• Be provided to investors on request; and</li> <li>• Be made available to the FCA.</li> </ul> <p>An AIFM must comply with these requirements in relation to the first financial year end date of the AIF following the AIFM's authorisation as an AIFM.</p> <p>For example, if the financial year end date is 31 December 2023, and the AIFM obtained authorisation July 2023, the AIFM must produce an annual report in relation to the financial year end of 31 December 2023 by 1 July 2024.</p>

<sup>11</sup> [FUND 3.2](#). More granular detail can be found in [Articles 108 and 109 of the AIFMD Level 2 Regulation](#).

<sup>12</sup> [FUND 3.2.5/FUND 3.2.6](#). Cross-referring to [Article 108 of the AIFMD Level 2 Regulation](#).

<sup>13</sup> [FUND 3.2.4A](#). Cross-referring to [COLL 4.2.5C](#).

<sup>14</sup> [FUND 3.2.4B](#).

<sup>15</sup> [FUND 3.2.8](#).

<sup>16</sup> [FUND 3.3](#).

<sup>17</sup> [FUND 3.3.2/FUND 3.3.3/FUND 3.3.4/FUND 3.3.4A/FUND 3.3.4B/FUND 3.3.7A](#).

<sup>18</sup> This does not apply to a full-scope UK AIFM of a non-UCITS retail scheme which should make available and publish its annual report within four months after the end of each annual accounting period.

7. ● ● ●	<p><i>An AIFM must be sure to include in the annual report prescribed content requirements.</i><sup>19</sup></p>	<p>An annual report must contain the content as prescribed in Annex 4,<sup>20</sup> which includes:</p> <ul style="list-style-type: none"> <li>• The total amount of remuneration paid by the AIFM to its staff for the financial year; and</li> <li>• Any material changes in the information that was required to be made available to investors prior to investing (see Section 3 Pre-Investment Obligations).</li> </ul>
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## 6. Regulatory Reporting<sup>21</sup>

Rule	
8.	<p><i>For a UK AIFM of a UK AIF <u>OR</u> a UK AIFM of a non-UK AIF marketed in the UK – see Schedule 1 ● ● ●</i></p> <p><i>For a UK AIFM of a non-UK AIF not marketed in the UK – see Schedule 2 ● ● ●</i></p>

## 7. Liquidity<sup>22</sup>

Rule	Obligation
9. ● ● ● ● ●	
10. ● ● ● ● ●	<p><i>An AIFM must, for each AIF it manages that is not an unleveraged closed-ended AIF, employ certain liquidity systems and conduct certain procedures.</i><sup>24</sup></p> <p>The AIFM must employ an appropriate liquidity management system and adopt procedures which:</p> <ul style="list-style-type: none"> <li>• Enable it to monitor the liquidity risk of the AIF; and</li> <li>• Ensure that the liquidity profile of the investments of the AIF complies with the AIF's underlying obligations.</li> </ul> <p>The AIFM must also regularly conduct stress tests, under normal and exceptional liquidity conditions, which enable it to assess the liquidity risk of the AIF and monitor that risk.</p>

<sup>19</sup> [FUND 3.3.5/FUND 3.3.7/FUND 3.3.7A and FUND 3.3.7B](#). Cross-referring to [Article 104 of the AIFMD Level 2 Regulation](#) and to [COLL 4.5.8AC](#).

<sup>20</sup> Where the AIF is required to make an annual report public under [DTR 4.1.3](#) as an issuer whose transferable securities are admitted to trading, only information that is additional to the annual financial report needs to be provided to investors on request, either separately or as an additional part of the annual financial report.

<sup>21</sup> [FUND 3.4](#). More granular detail can be found in [Articles 110 and 111 of the AIFMD Level 2 Regulation](#). A granular reporting template and guidance provided by the FCA is available [here](#).

<sup>22</sup> [FUND 3.6](#). More granular detail can be found in [Articles 46 to 49 of the AIFMD Level 2 Regulation](#).

<sup>23</sup> [FUND 3.6.2](#).

<sup>24</sup> [FUND 3.6.3](#).

## 8. Risk Management<sup>25</sup>

Rule		Obligation
11. ● ● ●	<b><i>An AIFM must functionally and hierarchically separate the functions of risk management from the operating units, including from the functions of portfolio management.</i></b> <sup>26</sup>	The risk management function shall be considered as functionally and hierarchically separate from the operating units, including the portfolio management function if the supervision and reporting lines are separate; there is no overlap in the investment and trading function and risk management roles and bonus, and other compensation criteria are decoupled from investment performance.
12. ● ● ●	<b><i>The functional and hierarchical separation of the risk management function shall be ensured throughout the whole hierarchical structure of the AIFM, up to its governing body, and it shall be reviewed by the governing body and, where it exists, the supervisory function of the AIFM.</i></b> <sup>27</sup>	The functional and hierarchical separation between the risk management function and the investment function must be reflected throughout the organisational structure, including at board level.
13. ● ● ●	<b><i>An AIFM must, in any event, be able to demonstrate that specific safeguards against conflicts of interest allow for the independent performance of risk management activities.</i></b> <sup>28</sup>	The safeguards against conflicts of interest should ensure, at least, that: <ul style="list-style-type: none"> <li>• Decisions taken by the risk management function are based on reliable data, which are subject to an appropriate degree of control by the risk management function;</li> <li>• There is effective decoupling of remuneration of risk management staff from investment performance;</li> <li>• The risk management function is subject to an appropriate independent review to ensure that decisions are being arrived at independently, for example, periodic internal and external audits;</li> <li>• Responsibility for risk management is specified to a board member of the same seniority or standing as the board members responsible for investment management;</li> <li>• Any conflicting duties are properly segregated;</li> <li>• Where a risk committee has been established, it is appropriately resourced and its non-independent members do not have undue influence over the performance of the risk management function.</li> </ul>
14. ● ● ●	<b><i>The governing body of the AIFM and, where it exists, the supervisory function shall establish the safeguards against conflicts of interest, regularly review their effectiveness and take timely remedial action to address any deficiencies.</i></b> <sup>29</sup>	The board must be satisfied that the conflicts of interest arrangements are adequate to ensure that risk management operates with an appropriate degree of independence.

<sup>25</sup> **FUND 3.7.** More granular detail can be found in **Articles 6 to 11 on the calculation of levels of leverage, Articles 38-47 on risk management and Article 112 on circumstances where competent authorities may impose leverage limits or other restrictions on the management of AIFs of AIFMD Level 2 Regulation.**

<sup>26</sup> **FUND 3.7.2/FUND 3.7.3.**

<sup>27</sup> **FUND 3.7.3.**

<sup>28</sup> **FUND 3.7.2/FUND 3.7.4.** Cross-referring to **Article 43 of the AIFMD Level 2 Regulation.**

<sup>29</sup> **FUND 3.7.4.**

Rule	Obligation
15. ● ● ● <i>An AIFM must, in any event, be able to demonstrate that the risk management process satisfies certain requirements.<sup>30</sup></i>	<p>An AIFM must implement adequate risk management systems to identify, measure and monitor all risks relevant to each AIF investment strategy and to which each AIF is, or may be, exposed.</p> <p>In particular, an AIFM must not solely or mechanically rely on credit rating issued by credit rating agencies<sup>31</sup> for assessing the AIF's assets.</p> <p>An AIFM must, at least:</p> <ul style="list-style-type: none"> <li>• Implement an appropriate, documented and regularly updated due diligence process when investing on behalf of the AIF, according to the investment strategy, objectives and risk profile of the AIF;</li> <li>• Ensure that the risks associated with each investment position of the AIF and their overall effect on the AIF's portfolio can be properly identified, measured, managed and monitored on an ongoing basis, including through the use of appropriate stress testing procedures;</li> <li>• Ensure that the risk profile of the AIF corresponds to the size, portfolio structure and investment strategies and objectives of the AIF as set out in the instrument constituting the funds, prospectus and offering documents; and</li> <li>• Ensure that the AIF only makes investments permitted by the Securitisation Regulation.<sup>32</sup></li> </ul>
16. ● ● ● <i>An AIFM must, in any event, be able to demonstrate that the risk management process is consistently effective.<sup>33</sup></i>	<p>An AIFM must:</p> <ul style="list-style-type: none"> <li>• Review the risk management systems with appropriate frequency and, in any event, at least once a year; and</li> <li>• Adapt them whenever necessary.</li> </ul>
17. ● ● ● <i>An AIFM must notify the FCA of any material changes to the risk management policy and of the arrangements, processes and techniques referred to above.<sup>34</sup></i>	<p>The AIFM must notify the FCA by submitting the form in SUP 15 Annex 6C R.<sup>35</sup></p>

<sup>30</sup> FUND 3.7.2/FUND 3.7.5. Articles 38 to 47 of the AIFMD Level 2 Regulation provide detailed rules on risk management.

<sup>31</sup> A "credit rating agency" is defined as a legal person whose occupation includes issuing credit ratings on a professional basis by [article 3\(1\)\(b\) of Regulation \(EC\) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies](#).

<sup>32</sup> [FUND 3.5.5](#). If the securitisation is issued after 1 January 2019, these requirements are provided for in [the Securitisation Regulation \(The UK version of Regulation \(EU\) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations \(EC\) No 1060/2009 and \(EU\) No 648/2012\)](#). If the securitisation was issued before 1 January 2019, the relevant traditional provisions are set out in [articles 43\(5\) and 43\(6\) of the Securitisation Regulation \(Regulation \(The UK version of Regulation \(EU\) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations \(EC\) No 1060/2009 and \(EU\) No 648/2012\)](#). [Where such relevant traditional provisions apply, Article 51 of the AIFMD Level 2 Regulation and Section 5 of that regulation may continue to apply to eligible securitisations.](#)

<sup>33</sup> FUND 3.7.6.

<sup>34</sup> FUND 3.7.5A.

<sup>35</sup> [https://www.handbook.fca.org.uk/form/sup/sup15\\_annex6c\\_20220224.pdf](https://www.handbook.fca.org.uk/form/sup/sup15_annex6c_20220224.pdf).



Rule		Obligation
18. ● ● ●	<b><i>An AIFM must set a maximum level of leveraging which it may employ on behalf of each AIF it manages and, where the leverage arrangement allows the right to reuse collateral or the granting of a guarantee, set out the extent of that right of guarantee, taking into account the matters in the right column.</i></b> <sup>36</sup>	When setting the maximum level of leveraging which the AIFM may employ on behalf of each AIF it manages, the AIFM must take into account the following matters where relevant: <ul style="list-style-type: none"> <li>• The type of AIF;</li> <li>• The investment strategy of the AIF;</li> <li>• The sources of leverage of the AIF;</li> <li>• Any other link or relevant relationship with other financial services institutions which pose systemic risk;</li> <li>• The need to limit the exposure to any single counterparty;</li> <li>• The extent to which the leverage is collateralised;</li> <li>• The asset-liability ratio; and</li> <li>• The scale, nature and extent of the activity of the AIFM on the markets concerned.</li> </ul>
19. ● ● ●	<b><i>An AIFM must demonstrate that the leverage limit it has set is reasonable and that it complies with that limit at all times.</i></b> <sup>37</sup>	To comply with this obligation, an AIFM should report to the FCA any changes to the leverage limits it sets. <sup>38</sup>

## 9. Prime Brokerage Firms<sup>39</sup>

Rule		Obligation
20. ● ● ●	<b><i>An AIFM must exercise due skill, care and diligence in the selection and appointment of a prime brokerage firm.</i></b> <sup>40</sup>	The board must be satisfied that there are appropriate criteria in place for the selection and appointment of a prime brokerage firm.
21. ● ● ●	<b><i>Where the AIFM, on behalf of the AIF, uses the services of a prime brokerage firm, the terms must be in a written contract which must comply with certain requirements.</i></b> <sup>41</sup>	The written contract must provide for any possibility of transfer and reuse of AIF assets, which must comply with the AIF's instrument constituting the fund.  The contract must also provide for the depositary to be informed of the contract.

<sup>36</sup> [FUND 3.7.7. Articles 6 to 11 of the AIFMD Level 2 Regulation](#) provide detailed rules on the calculation of levels of leverage.

<sup>37</sup> [FUND 3.7.8/FUND 3.7.9. Article 112 of the AIFMD Level 2 Regulation](#) provides detailed rules on circumstances where the national authorities of an EEA state which are empowered by law or regulation to supervise AIFs may impose leverage limits or other restrictions on the management of AIFs.

<sup>38</sup> The AIFM must notify the FCA by submitting the form in [SUP 15 Annex 6C R](#).

<sup>39</sup> [FUND 3.8](#).

<sup>40</sup> [FUND 3.8.2](#).

<sup>41</sup> [FUND 3.8.3](#).

## 10. Valuation<sup>42</sup>

Rule		Obligation
22. ● ● ●	<p><b>An AIFM is responsible for:</b></p> <ul style="list-style-type: none"> <li>• <i>Proper valuation of AIF assets;</i></li> <li>• <i>The calculation of the net asset value; and</i></li> <li>• <i>The publication of the net asset value.</i><sup>43</sup></li> </ul>	<p>The AIFM remains responsible for valuation and calculation even if the valuation and the calculation is delegated to a third party.</p>
23. ● ● ●	<p><b>An AIFM must ensure that any valuation of an AIF's assets is performed impartially and with all due skill, care and diligence.</b><sup>44</sup></p>	
24. ● ● ●	<p><b>An AIFM must ensure that, for each AIF it manages, appropriate and consistent written policies and procedures are established for valuation of assets, in line with certain requirements.</b><sup>45</sup></p>	<p>The policies and procedures established must ensure that, under the rules laid down in the applicable national law of the country where the AIF is established and the instrument constituting the fund:</p> <ul style="list-style-type: none"> <li>• A proper and independent valuation of the assets of the AIF can be performed;</li> <li>• The AIFM shall not invest in a particular type of asset for the first time unless an appropriate valuation methodology or methodologies have been identified for that specific type of asset; and</li> <li>• The net asset value per unit or share of the AIF is calculated and disclosed to investors.</li> </ul> <p>The valuation policy and procedures must cover all material aspects of the valuation process and valuation procedures and controls in respect of the relevant AIF and must address at least the items set out in Annex 6.</p>
25. ● ● ●	<p><b>An AIFM must ensure that the valuation policies and procedures and the designated valuation methodologies are applied consistently, fairly and appropriately.</b><sup>46</sup></p>	<p>The valuation policies and procedures and the designated methodologies should be applied to all assets within an AIF and across all AIFs managed by the same AIFM.</p> <p>An AIFM should ensure that all assets are fairly and appropriately valued by documenting, by type of asset, the way the appropriateness and fairness of the individual values is assessed.</p> <p>The AIFM shall at all times be able to demonstrate that the portfolios of AIFs it manages are properly valued.</p>

<sup>42</sup> **FUND 3.9.** More granular detail can be found in **Articles 67 to 74 of the AIFMD Level 2 Regulation.**

<sup>43</sup> **FUND 3.9.2.**

<sup>44</sup> **FUND 3.9.3.**

<sup>45</sup> **FUND 3.9.4.** Cross-referring to **Article 67 and Article 68 AIFMD Level 2 Regulation.**

<sup>46</sup> **FUND 3.9.4.** Cross-referring to **Article 69 and Article 71 of the AIFMD Level 2 Regulation.**

Rule		Obligation
26. ● ● ●	<i>An AIFM must ensure that the frequency of valuation of assets and the calculation of net asset value complies with the requirements in the right column.</i> <sup>47</sup>	An AIFM must ensure that the valuation procedure provides for the assets of any AIF under the AIFM's management to be valued, and the net asset value per unit or share to be calculated, at least once a year. An AIF should carry out a valuation and NAV calculation each time interests in the AIF are redeemed or subscribed to.
27. ● ● ●	<i>An AIFM must ensure that investors in the AIFs under its management are informed of the valuations and calculations.</i> <sup>48</sup>	The valuations and calculations must be provided to investors in the manner set out in the relevant instrument constituting the fund.
28. ● ● ●	<i>An AIFM must ensure that the valuations are performed by a valuer who satisfies certain requirements.</i> <sup>49</sup>	Valuation may be performed by the AIFM or by a third party as long as the valuation is independent and can be objectively justified and evidenced. To be such, the requirements listed in Annex 7 must be satisfied.  An external valuer chosen by an AIFM to perform the valuation function cannot delegate valuation to a third party.
29. ● ● ●	<i>Where an external valuer performs the valuation function, the AIFM must notify the appointment to the FCA.</i> <sup>50</sup>	The AIFM must notify the FCA by submitting the form in SUP 15 Annex 6C R. <sup>51</sup>

## 11. Delegation<sup>52</sup>

Rule		Obligation
30. ● ● ●	<i>An AIFM's liability towards the AIF and its investors is not affected by the AIFM delegating functions to a third party, or by any further sub-delegation.</i> <sup>53</sup>	
31. ● ● ●	<i>An AIFM must ensure it has met certain conditions when a delegate carries out a function on its behalf.</i> <sup>54</sup>	The AIFM must ensure that it has met the conditions set out in Annex 8 when a delegate carries out a function on its behalf. These conditions include that: <ul style="list-style-type: none"> <li>• The AIFM should be able to justify its entire delegation structure objectively; and</li> <li>• The delegation should not prevent the FCA from supervising the AIFM effectively and, in particular, should not prevent the AIF from acting or the AIF from being managed in the best interests of its investors.</li> </ul>

<sup>47</sup> FUND 3.9.5.

<sup>48</sup> FUND 3.9.6/FUND 3.9.10.

<sup>49</sup> FUND 3.9.7/FUND 3.9.8/FUND 3.9.9/FUND 3.9.10.

<sup>50</sup> FUND 3.9.11.

<sup>51</sup> [https://www.handbook.fca.org.uk/form/sup/sup15\\_annex6c\\_20220224.pdf](https://www.handbook.fca.org.uk/form/sup/sup15_annex6c_20220224.pdf).

<sup>52</sup> FUND 3.10. More granular detail can be found in [Articles 75 to 82 of the AIFMD Level 2 Regulation](#).

<sup>53</sup> FUND 3.10.10.

<sup>54</sup> FUND 3.10.2/FUND 3.10.3/FUND 3.10.7. Cross-referring to [Article 75 and Article 76 of the AIFMD Level 2 Regulation](#).

Rule	Obligation
32. ● ● ● <i>An AIFM must ensure that certain conditions are met when any of its delegates carry out a sub-delegation.</i> <sup>55</sup>	<p>The AIFM must make sure it has met the following conditions when any of its delegates carry out a sub-delegation:</p> <ul style="list-style-type: none"> <li>• The AIFM has consented to the sub-delegation before the sub-delegation arrangements become effective;</li> <li>• The AIFM has notified the FCA of the sub-delegation before the sub-delegation arrangements become effective;<sup>56</sup> and</li> <li>• The conditions that are required to be fulfilled when a delegate carries out a function on behalf of the AIFM (as outlined in Rule 31 above<sup>57</sup>) are satisfied in relation to the sub-delegation, with references to 'delegate' and 'delegation' replaced by references to 'sub-delegate' and 'sub-delegation'.</li> </ul> <p>An AIFM must comply with the obligations regarding sub-delegation above in relation to any further sub-delegation of its functions by a sub-delegate.</p>
33. ● ● ● <i>An AIFM is restricted from delegating or consenting to sub-delegation of AIFM investment management functions to certain entities.</i> <sup>58</sup>	<p>An AIFM must not delegate or consent to the sub-delegation of AIFM investment management functions to:</p> <ul style="list-style-type: none"> <li>• The depositary or a delegate of the depositary; or</li> <li>• Any other entity whose interests may conflict with those of the AIFM or the investors of the AIF, unless:               <ul style="list-style-type: none"> <li>— That entity has functionally and hierarchically separated the performance of its AIFM investment management function from its other potentially conflicting tasks; and</li> <li>— The potential conflicts of interest are properly identified, managed, monitored and disclosed to the investors of the AIF.</li> </ul> </li> </ul>
34. ● ● ● <i>An AIFM must review on an ongoing basis the services provided by each delegate and sub-delegate.</i> <sup>59</sup>	<p>An AIFM must oversee the activities of their delegates and make each of its delegates aware of the requirements to review the services provided by each of its sub-delegates.</p>
35. ● ● ● <i>An AIFM must notify the FCA of delegation arrangements.</i> <sup>60</sup>	<p>The AIFM must notify the FCA by submitting the form in SUP 15 Annex 6C R.<sup>61</sup></p> <p>An AIFM that wishes to apply for the approval of its delegation arrangements must do so using the form in FUND 3 Annex 2 R.<sup>62</sup></p>
36. ● ● ● <i>An AIFM must not delegate its functions to the extent that, in essence, it can no longer be considered to be the AIFM of the AIF and to the extent that it becomes a letter-box entity.</i> <sup>63</sup>	<p>An AIFM shall be deemed a letter-box entity and shall no longer be considered to be the manager of the AIF in at least any of the situations outlined in Annex 9.</p>

55 FUND 3.10.4/FUND 3.10.5.

56 The AIFM must notify the FCA by submitting the form in SUP 15 Annex 6C R.

57 FUND 3.10.2/FUND 3.10.3/FUND 3.10.7. Cross-referring to Article 75 and Article 76 of the AIFMD Level 2 Regulation.

58 FUND 3.10.6.

59 FUND 3.10.11/FUND 3.10.12.

60 FUND 3.10.2A/FUND 3.10.7A.

61 [https://www.handbook.fca.org.uk/form/sup/sup15\\_annex6c\\_20220224.pdf](https://www.handbook.fca.org.uk/form/sup/sup15_annex6c_20220224.pdf).

62 [https://www.handbook.fca.org.uk/form/fund/fund3\\_annex2\\_20220224.pdf](https://www.handbook.fca.org.uk/form/fund/fund3_annex2_20220224.pdf).

63 FUND 3.10.8/FUND 3.10.9.

## 12. Depositaries<sup>64</sup>

Rule	Obligation	
37. ● ●	<i>UK AIFMs for a UK and non-UK AIF must, in the context of their respective roles, act honestly, fairly, professionally, independently and in the interest of the AIF and its investors.</i> <sup>65</sup>	
38. ●	<i>An AIFM of a UK AIF must ensure a single depositary is appointed for each UK AIF it manages.</i> <sup>66</sup>	The role of a depositary includes: <ul style="list-style-type: none"> <li>• Safekeeping of custodial assets<sup>67</sup>; and</li> <li>• Safekeeping, verification of and recordkeeping in respect of non-custodial asset<sup>68</sup>.</li> </ul>
39. ●	<i>An AIFM of a non-UK AIF marketed in the UK must ensure that the depositary duties described in the column on the right are carried out by one or more suitable entities (c.f. Rule 46 in this document).</i> <sup>69</sup>	An AIFM must ensure that the following duties of a depositary: <ul style="list-style-type: none"> <li>• Cash flow monitoring;<sup>70</sup></li> <li>• Safekeeping of custodial assets;<sup>71</sup></li> <li>• Safekeeping, verification of and recordkeeping in respect of non-custodial asset;<sup>72</sup> and</li> <li>• Oversight and valuations of interests in the AIF/NAV calculations;<sup>73</sup></li> </ul> are carried out in relation to that AIF.
40. ●	<i>An AIFM of a non-UK AIF must not perform the duties of a depositary itself.</i> <sup>74</sup>	
41. ●	<i>An AIFM of a non-UK AIF must provide the FCA with information about the identity of those entities responsible for carrying out the depositary duties.</i> <sup>75</sup>	
42. ●	<i>An AIFM of a UK AIF must ensure that certain duties are carried out by a depositary in relation to that AIF.</i> <sup>76</sup>	An AIFM must specifically ensure that the depositary's safekeeping arrangements are consistent with the FCA's rules, including as to: <ul style="list-style-type: none"> <li>• appropriate segregation in the depositary's books and records;</li> <li>• safekeeping of financial instruments;<sup>77</sup> and</li> <li>• verification and recordkeeping with respect to non-custodial assets.<sup>78</sup></li> </ul>

64 **FUND 3.11.** More granular detail can be found in **Article 83 to Article 102 of the AIFMD Level 2 Regulation.**

65 **FUND 3.11.5.**

66 **FUND 3.11.4.**

67 **FUND 3.11.21.** See Annex 11 outlining what this duty entails.

68 **FUND 3.11.23.** See Annex 12 outlining what this duty entails.

69 **FUND 3.11.33.**

70 **FUND 3.11.20.** See Annex 13 outlining what this duty entails.

71 **FUND 3.11.21.** See Annex 11 outlining what this duty entails.

72 **FUND 3.11.23.** See Annex 12 outlining what this duty entails.

73 **FUND 3.11.25.** See Annex 14 outlining what this duty entails.

74 **FUND 3.11.33.**

75 **FUND 3.11.33.**

76 **FUND 3.11.4.**

77 See Annex 11 outlining what this duty entails.

78 See Annex 12 outlining what this duty entails.

Rule	Obligation
43. ● <i>The AIFM of a UK AIF that generally invests in custodial assets must appoint a depositary that meets the criteria in the right column.<sup>79</sup></i>	An AIFM must, for each UK AIF it manages, ensure the appointment of a depositary which is a UK credit institution or UK or EEA MiFID investment firm (with appropriate permissions).
44. ● <i>The AIFM of a closed-ended UK AIF that does not generally invest in custodial assets may appoint a depositary that meets the criteria in the right column.<sup>80</sup></i>	The depositary must be a duly authorised UK firm with its own funds of at least €125,000.
45. ● <i>An AIFM of a UK AIF must ensure that the appointment of the depositary is evidenced by a written contract.<sup>81</sup></i>	The contract must regulate the flow of information deemed necessary to allow the depositary to perform its functions for the AIF for which it has been appointed as depositary and must include at least the elements in Annex 10.
46. ● <i>An AIFM of a non-UK AIF which is marketed in the UK must appoint one or more entities that meet the criteria in the right column.<sup>82</sup></i>	A UK firm authorised as a depositary with its own funds of at least €125,000, or a suitable non-UK firm.
47. ● ● <i>Additional requirements apply to trustees/depositaries of authorised AIFs.<sup>83</sup></i>	

<sup>79</sup> FUND 3.11.10/FUND 3.11.11.

<sup>80</sup> FUND 3.11.12/FUND 3.11.14.

For certain types of closed-ended AIFs, a wider range of entities than these specified may perform the relevant depositary function. The FCA requires such entities to obtain authorisation as a depositary to demonstrate that they can meet the commitments inherent in those functions, but imposes a lower level of capital requirements in recognition of the different degree of risk implied by the characteristics of the AIF. The capital requirements of such firms are contained in [IPRU-INV 5](#), particularly [IPRU-INV 5.4.3R](#), but if the firm also undertakes MiFID business, its capital requirements will be contained in [MIFIDPRU \(FUND 3.11.15\)](#).

<sup>81</sup> FUND 3.11.19. Cross-referring to [Article 83 of the AIFMD Level 2 Regulation](#).

<sup>82</sup> FUND 3.11.33.

<sup>83</sup> FUND 3.11.6.

## 13. Annex 1: Pre-Investment Obligations - Information to be Disclosed to Investors<sup>84</sup>

1.	A description of the investment strategy and objective of the AIF;
2.	If the AIF is a feeder AIF, information on where the master AIF is established;
3.	If the AIF is a fund of funds, information on where the underlying funds are established;
4.	A description of the types of assets in which the AIF may invest;
5.	The investment techniques that the AIF, or the AIFM on behalf of the AIF, may employ and all associated risks;
6.	Any applicable investment restrictions;
7.	The circumstances in which the AIF may use leverage;
8.	The types and sources of leverage permitted and the associated risks;
9.	Any restriction on the use of leverage and any collateral and asset reuse arrangements;
10.	The maximum level of leverage which the AIFM is entitled to employ on behalf of the AIF;
11.	A description of the procedures by which the AIF may change its investment strategy or investment policy, or both;
12.	A description of the main legal implications of the contractual relationship entered into for the purpose of investment, including: <ul style="list-style-type: none"> <li>• Information on jurisdiction;</li> <li>• The application law; and</li> <li>• The existence or absence of any legal instruments providing for the recognition and enforcement of judgements in the territory where the AIF is established;</li> </ul>
13.	The identity of the AIFM, the AIF's depositary, the auditor and any other service providers and a description of their duties and investors' rights;
14.	A description of how the AIFM complies with its requirements to cover the professional liability risks;
15.	A description of: <ul style="list-style-type: none"> <li>• Any AIFM management function delegated by the AIFM;</li> <li>• Any safekeeping function delegated by the depositary;</li> <li>• Any identity of each delegate appointed in accordance with the below; and</li> <li>• Any conflicts of interest that may arise from such delegations;</li> </ul>
16.	A description of the AIF's valuation procedure and of the pricing methodology for valuing assets, including the methods used in valuing any hard-to-value assets;
17.	A description of the AIF's liquidity risk management, including the redemption risks of investors in normal and exceptional circumstances, and the existing redemption arrangements with investors;
18.	A description of all fees, charges and expenses, and the maximum amounts directly or indirectly borne by investors;
19.	A description of how the AIFM ensures fair treatment of investors;
20.	Whenever an investor obtains preferential treatment or the right to obtain preferential treatment, a description of: <ul style="list-style-type: none"> <li>• That preferential treatment;</li> <li>• The type of investor to obtain such preferential treatment; and</li> <li>• Where relevant, their legal or economic link with the AIF or AIFM;</li> </ul>
21.	The procedure and conditions for the issue and sale of units or shares;

<sup>84</sup> FUND 3.2.2/3.2.3/3.2.4.

22.	The latest net asset value of the AIF or the latest market price of the unit or share of the AIF;
23.	The latest annual report;
24.	The identity of the prime brokerage firm;
25.	A description of any material arrangements of the AIF with its prime brokerage firm and the way any conflicts of interest are managed;
26.	The provision in the contract with the depositary on the possibility of transfer and reuse of AIF assets;
27.	Information about any transfer of liability to the prime brokerage firm that may exist;
28.	A description of how and when periodic disclosure will be made;
29.	The existence of any arrangement made by the depositary to contractually discharge itself of liability. The AIFM must also inform investors without delay of any changes with respect to depositary liability; and
30.	Where the AIF is required to publish a prospectus, only information referred to above that is additional to that contained in the prospectus needs to be disclosed, either separately or as additional information in the prospectus.



## 14. Annex 2: Periodic Investor Disclosures - Information to be Periodically Disclosed to Investors<sup>85</sup>

1. The AIF must periodically disclose the following information:	
a.	<p>The percentage of the AIF's assets that are subject to special arrangement arising from their illiquid nature, calculated as the net value of those assets subject to special arrangements divided by the net asset value of the AIF concerned, including:</p> <ul style="list-style-type: none"> <li>• An overview of any such special arrangements in place including whether they relate to side pockets, gates or other similar arrangements, the valuation methodology applied to assets which are subject to such arrangements and how management and performance fees apply to these assets;</li> </ul>
b.	<p>Any new arrangements for managing the liquidity of the AIF, including:</p> <ul style="list-style-type: none"> <li>• Changes to the liquidity management systems and procedures made by an AIFM for each AIF which is not an unleveraged closed-ended AIF;</li> <li>• Where AIFMs have activated gates, side pockets or similar special arrangements or where they decide to suspect redemptions;</li> <li>• An overview of the changes to arrangement concerning liquidity, whether or not these are special arrangements;</li> <li>• Where relevant, the terms under which redemption is permitted and circumstances determining when management discretion applies; and</li> <li>• Information on voting or other restrictions exercisable, the length of any lock-up or any provision concerning 'first in line' or 'pro-rating' on gates and suspension;</li> </ul>
c.	<p>The current risk profile of the AIF and the main features of the risk management systems employed by the AIFM to manage risks (market risk, liquidity risk, counterparty risk and other risks including operational risk) it is or may be exposed to, including:</p> <ul style="list-style-type: none"> <li>• Information on measures used to assess the sensitivity of the AIF's portfolio to the most relevant risks to which the AIF is or could be exposed;</li> <li>• If risk limits set by the AIFM have been or are likely to be exceeded and where these risks limits have been exceeded, a description of the circumstances and the remedial measures taken; and</li> <li>• The case of change to the risk management systems, the information relating to the change and its anticipated impact on the AIF and its investors; and</li> </ul>
d.	<p>An AIFM that manages a UK AIF or markets an AIF in the UK must, for each such AIF that employs leverage, disclose on a regular basis the following information:</p> <ul style="list-style-type: none"> <li>• Any changes to: <ul style="list-style-type: none"> <li>— The maximum level of leverage that the AIFM may employ on behalf of the AIF calculated in accordance with the gross and commitment; and</li> <li>— Any right of reuse of collateral or any guarantee granted under the leveraging arrangement; and</li> </ul> </li> <li>• The total amount of leverage employed by that AIF.</li> </ul>

<sup>85</sup> FUND 3.2.5/3.2.6. Cross-referring to [Article 108 of the AIFMD Level 2 Regulation](#).

## 15. Annex 3: Periodic Investor Disclosures - Disclosure Requirements if Carrying Out Securities Financing Transactions (“SFTs”) and Total Return Swaps (“TRSs”)<sup>86</sup>

If carrying out SFTs and TRSs, the AIFM of an AIF must make the following further disclosures:		
	Disclosure	Example
1.	<b>General description of the SFT and the total return swaps which the AIF is authorised to use, a clear statement that those transactions and instruments are used and a rationale for their use;</b>	<p><i>The Fund may, from time to time, enter into securities lending or borrowing agreements, repurchase agreements, reverse repurchase agreements, margin lending agreements and buy/sell-back transactions or sell/buy-back transactions (“SFTs”). The Fund may enter into such agreements as a borrower or buyer to acquire securities that it may use, among other things, to provide collateral pursuant to transactions in financial derivative instruments or other instruments or investments, or as a means of earning additional income.</i></p> <p><i>The Fund may also enter into such agreements as a lender or a seller to improve the overall returns to the Fund in respect of the Fund’s assets. The Fund may also, from time to time, enter into a total return swap with respect to an investment. The risks associated with such transactions are described in the Memorandum at Section [x].</i></p> <p>Where such transactions and instruments are not used:</p> <p><i>In accordance with Article 14(1) of Regulation (EU) 2015/2365, as such regulation forms part of the domestic law of the United Kingdom by virtue of section 3 of the European Union (Withdrawal) Act 2018 (the “UK SFTR”), the Manager is required to <u>provide prospective investors</u> with information relating to “securities financing transactions” and “total return swaps” (as defined under UK SFTR) that the AIF is authorised to use and include a clear statement that such transactions and instruments are used. Pursuant to the UK SFTR, we hereby confirm that the AIF is not invested in any “securities financing transactions” and “total return swaps” (as defined under the UK SFTR).</i></p>
2.	<b>For each type of SFT and TRS, data reporting:</b>	
	a.	<p>The type of asset that can be subject to them;</p> <p><i>If a Fund invests in total return swaps or Securities Financing Transactions, the relevant asset or index may be comprised of equity or debt securities, money market instruments or other eligible investments that are consistent with the investment objective and policies of the Fund.</i></p>
	b.	<p>The maximum proportion of assets under management (“AUM”) that can be subject to them; and</p> <p><i>Subject to each Fund’s investment objective and policies, there is no limit on the proportion of assets that may be subject to Securities Financing Transactions and Total Return Swaps and therefore the maximum and expected proportion of the Fund’s assets that can be subject to Securities Financing Transactions will be 100%, i.e. all of the assets of the Fund.</i></p>
	c.	<p><b>The expected proportion of AUM that will be subject to each of them;</b></p> <p><i>The Investment Manager expects that the value of the assets or liabilities of the Fund attributable to SFTs at any time will vary between [x]% of the value of the Master Fund’s total assets at that time.</i></p> <p><i>The Investment Manager expects that the value of the assets or liabilities of the Fund attributable to total return swaps at any time will vary between [x]% of the value of the Fund’s total assets at that time.</i></p>

<sup>86</sup> FUND 3.2.4A. Cross-referring to COLL 4.2.5C.

**If carrying out SFTs and TRSs, the AIFM of an AIF must make the following further disclosures:**

	Disclosure	Example
3.	<p><b>Criteria used to select counterparties;</b></p>	<p><i>Any counterparty to a total return swap or other OTC derivative contract shall fall within one of the following categories:</i></p> <p><i>(i) a credit institution that falls within any of the categories set down in Regulation 7 of the Central Bank UCITS Regulations (an “Approved Credit Institution”);</i></p> <p><i>(ii) an investment firm authorised in accordance with MiFID; or</i></p> <p><i>(iii) a group company of an entity issued with a bank holding company license from the Federal Reserve of the United States of America where that group company is subject to bank holding company consolidated supervision by that Federal Reserve.</i></p> <p><i>Any counterparty to a OTC derivative contract or a securities financing transaction shall be subject to an appropriate internal assessment carried out by the Company or the Investment Manager on its behalf which shall include, amongst other considerations, external credit ratings of the counterparty, the regulatory supervision applied to the relevant counterparty, country of origin of the counterparty and legal status of the counterparty.</i></p> <p><i>Save where the relevant counterparty to the relevant securities financing transaction or OTC derivative contract is an Approved Credit Institution, where such counterparty (a) is subject to a credit rating by an agency registered and supervised by ESMA that rating shall be taken into account by the Company or Investment Manager on its behalf in the credit assessment process; and (b) where a counterparty is downgraded to A-2 or below (or comparable rating) by the credit rating agency referred to in subparagraph (a) this shall result in a new credit assessment being conducted of the counterparty by the Company or Investment Manager on its behalf without delay.</i></p>

**If carrying out SFTs and TRSs, the AIFM of an AIF must make the following further disclosures:**

	Disclosure	Example
4.	<p><b>Description of acceptable collateral with regard to asset types, issuer, maturity and liquidity as well as the collateral diversification and correlation policies;</b></p>	<p><i>The Fund accepts and may receive the following categories of assets as collateral from its counterparties: equity or debt securities of an issuer listed and admitted to trading on a regulated market in the European Economic Area, the United Kingdom or an equivalent market in the United States; debt securities issued by the government of any member state of the European Union, the United Kingdom or the United States or by the central banks and certain regional and local authorities of the European Union, the United Kingdom or the United States; and any such other assets as are, from time to time, determined to constitute eligible collateral for the purposes of EMIR.</i></p> <p><i>The Fund requires collateral provided by any one counterparty, and across all counterparties, to be adequately diversified.</i></p> <p><i>The maximum exposure to any given issuer shall not exceed [x]% per cent of the value of the Master Fund's total assets at any time.</i></p> <p><i>The Fund will not accept collateral provided by a counterparty that is highly correlated with that counterparty or any affiliated entity to the counterparty. "Highly correlated" in this context means [x]. In addition, the Fund generally imposes the following restrictions on acceptable collateral, but may negotiate certain exceptions to the same on a case-by-case basis.</i></p>
5.	<p><b>Description of the collateral valuation methodology used and its rationale, and whether daily mark-to-market and daily variation margins are used;</b></p>	<p><i>Collateral provided and received by the Fund will be valued in accordance with the contractual arrangements relating to the relevant SFT, total return swap or other transaction pursuant to which the collateral is provided. Generally, where the Fund enters into an SFT or a total return swap, the Fund and its counterparty will exchange daily variation margin, and the collateral exchanged will be subject to daily valuation on a mark-to-market basis.</i></p> <p><i>In the alternative, where appropriate, collateral may be valued in accordance with the valuation policy of the Fund and the general valuation principles, as described in Memorandum.</i></p> <p><i>Collateral received by the Fund will be held by the Depositary or a custodian to which custody has been delegated by the Depositary of the Fund.</i></p>

**If carrying out SFTs and TRSs, the AIFM of an AIF must make the following further disclosures:**

	Disclosure	Example
6.	<p><b>Description of the risks linked to SFTs and total return swaps as well as risks linked to collateral management, such as operational, liquidity, counterparty, custody and legal risks and, where applicable, the risks arising from its reuse;</b></p>	<p><i>Where a Fund receives collateral as a result of entering into total return swaps or Securities Financing Transactions, there is a risk that the collateral held by the Fund may decline in value or become illiquid. In addition, there can also be no assurance that the liquidation of any collateral provided to the Fund to secure a counterparty's obligations under a total return swap or Securities Financing Transaction would satisfy the counterparty's obligations in the event of a default by the counterparty. Where a Fund provides collateral as a result of entering into total return swaps or Securities Financing Transactions, it is exposed to the risk that the counterparty will be unable or unwilling to honour its obligations to return the collateral provided.</i></p> <p><i>A Fund may provide certain of its assets as collateral to counterparties in connection with total return swaps and Securities Financing Transactions. If a Fund has over-collateralised (i.e. provided excess collateral which is delivered by way of title transfer to the counterparty) in respect of such transactions, it may be an unsecured creditor in respect of such excess collateral in the event of the counterparty's insolvency.</i></p> <p><i>There are legal risks involved in entering into total return swaps or Securities Financing Transactions (including with respect to collateral received or transferred in connection with such transactions) which may result in loss due to the unexpected application of a law or regulation or because contracts are not legally enforceable or documented correctly. Collateral management is also subject to a number of operational risks, which can result in a failure to request collateral to cover the exposure of a Fund or failure to demand the return of collateral from a counterparty when due.</i></p> <p><i>Subject to the restrictions laid down by the FCA as set out in Appendix [x], a Fund may reinvest cash collateral that it receives. If cash collateral received by a Fund is reinvested, the Fund is exposed to the risk of loss on that investment. Should such a loss occur, the value of the collateral will be reduced and the Fund will have less protection if the counterparty defaults. The risks associated with the reinvestment of cash collateral are substantially the same as the risks which apply to other equivalent investments of the Fund. Furthermore, while reinvested cash is required to be diversified and may only be reinvested in the manner set out in paragraphs 49 and 98 of Appendix III, there remains a risk that the value of the asset invested in using cash collateral received by the Fund falls below the amount required to be returned to the cash collateral provider. Any shortfall will be borne by the Fund, causing loss to the Fund and consequently investors.</i></p> <p><i>For a summary of certain other risks applicable to total return swaps and Securities Financing Transactions, see section [x] on specific risk factors.</i></p>
7.	<p><b>Specification of how assets subject to SFTs and TRSs are safe-kept;</b></p>	<p><i>Collateral received by a Fund on a title transfer basis shall be held by the Depositary or a duly appointed sub-depositary of the Depositary. For other types of collateral arrangements, the collateral can be held by the Depositary, a duly appointed sub-depositary of the Depositary or by a third-party custodian which is subject to prudential supervision and which is unrelated to the provider of the collateral.</i></p>

**If carrying out SFTs and TRSs, the AIFM of an AIF must make the following further disclosures:**

	<b>Disclosure</b>	<b>Example</b>
<b>8.</b>	<b>Specification of any restrictions on reuse of collateral; and</b>	<p><i>Non-cash collateral received by the Company in respect of any of these transactions will not be sold, reinvested or pledged.</i></p> <p><i>As the case may be, cash collateral received by the Company in relation to any of these transactions can be reinvested in a manner consistent with the investment objectives of the Company in</i></p> <p><i>(a) shares or units issued by short-term money market undertakings for collective investment as defined in the CESR Guidelines on a Common Definition of European Money Market Funds (Re CESR/10-049) calculating a daily Net Asset Value and being assigned a rating of AAA or its equivalent,</i></p> <p><i>(b) short-term bank deposits with a credit institution which has its registered office in a Member State or, if the credit institution is situated in a third country, provided that it is subject to prudential rules considered by Luxembourg regulator as equivalent to those laid down in community law,</i></p> <p><i>(c) highly rated bonds issued or guaranteed by a Member State, Switzerland, Canada, Japan or the United States or by their local authorities or by supranational institutions and undertakings with EU, regional or world-wide scope and</i></p> <p><i>d) reverse repurchase agreement transactions provided the transactions are with credit institutions subject to prudential supervision and the Company can recall at any time the full amount of cash on an accrued basis. Such reinvestment will be taken into account for the calculation of the Company's global exposure, in particular if it creates a leverage effect.</i></p>
<b>9.</b>	<b>Description of the proportions of the revenue generated by SFTs and TRSs that is returned to the collective investment undertaking and of the costs and fees assigned to the manager or third parties including whether these are related to the manager.</b>	<p><i>Direct and indirect operational costs and fees arising from total return swaps or Securities Financing Transactions may be deducted from the revenue delivered to a Fund (e.g. as a result of revenue sharing arrangements). All the revenues arising from such total return swaps and Securities Financing Transactions and any other efficient portfolio management techniques, net of direct and indirect operational costs, will be returned to the relevant Fund. The entities to which direct and indirect costs and fees may be paid include banks, investment firms, broker-dealers, Securities Lending Agents or other financial institutions or intermediaries each of whom may be related parties to the ACD. Fees may also be paid to the ACD itself where the ACD is carrying out Securities Lending Services but only to the extent set out below in the section headed [x].</i></p>

## 16. Annex 4: Annual Report of an AIF - Contents To Be Included in the Annual Report<sup>87</sup>

1. An AIFM must be sure to include in the annual reporting the following content:	
a.	<p>A balance sheet or a statement of assets and liabilities which at least includes:</p> <ul style="list-style-type: none"> <li>• Assets, comprising the resources controlled by the AIF as a result of past events and from which future economic benefits are expected to flow to the AIF. Assets should be sub-classified into investments, cash and cash equivalents and receivables;</li> <li>• Liabilities, comprising present obligations of the AIF arising from past events, the settlement of which is expected to result in an outflow from the AIF of resources embodying economic benefits. Liabilities should be sub-classified into payables, borrowings and other liabilities; and</li> <li>• Net assets, representing the residual interest in the assets of the AIF after deducting all its liabilities;</li> </ul>
b.	<p>An income and expenditure account for the financial year which at least includes:</p> <ul style="list-style-type: none"> <li>• Income, representing any increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in net assets other than those relating to contribution from investors. Income should be sub-classified into investment income (which should be further sub-classified into dividend income, interest income and rental income), realised gains on investment, unrealised gains on investments and other income;</li> <li>• Expenses, representing decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in net assets, other than those relating to distribution to investors. Expenses should be sub-classified into investment advisory or management fees, other expenses, realised loss on investments and unrealised loss on investments; and</li> <li>• Net income or expenditure, representing the excess of income over expenditure or expenditure over income, as applicable;</li> </ul>
c.	<p>A report on the activities of the financial year which at least includes;</p> <ul style="list-style-type: none"> <li>• An overview of investment activities during the year or period, and an overview of the AIF's portfolio at year end or period end;</li> <li>• An overview of AIF performance over the year or period;</li> <li>• A fair and balanced review of activities and performance of the AIF, containing also a description of the principal risks and investment or economic uncertainties that the AIF might face; and</li> <li>• To the extent necessary for an understanding of the AIF's investment activities or its performance, financial and non-financial key performance indicators relevant to that AIF;</li> </ul>
d.	<p>Any material changes during the financial year in the information required to have been made available to disclosed to investors prior to investing, as listed above, covered by the report (any changes in information is deemed to be material if there is a substantial likelihood that a reasonable investors, becoming aware of such information, would reconsider its investment in the AIF);</p>
e.	<p>The number of beneficiaries; and</p>
f.	<p>The aggregate amount of remuneration broken down by senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the AIF.</p>
2. There is also a requirement to provide accounting information which must be:	
a.	<p>Prepared in accordance with the accounting standards of the UK and with the accounting rules set out in the AIF's instrument constituting the fund; and</p>
b.	<p>Audited by one or more persons empowered by law to audit accounts under the Companies Act 2006 (or for a non-UK AIF, under international auditing standards in force in the country where the non-UK AIF is established). The auditor's report, including any qualifications, must be reproduced in full in the annual report.</p>

<sup>87</sup> FUND 3.3.5/FUND 3.3.7/FUND 3.3.7A and FUND 3.3.7B. Cross-referring to [Article 104 of the AIFMD Level 2 Regulation](#) and to [COLL 4.5.8AC](#)

**3. A full-scope UK AIFM of an AIF that uses SFTs or TRSs must include additional information in their AIF annual report. This includes the following:**

a.	Use that the AIFM makes of SFTs and TRSs;
b.	Global data including: <ul style="list-style-type: none"> <li>• Amount of securities and commodities on loan as a proportion of total lendable assets defined as excluding cash and cash equivalents; and</li> <li>• Amount of assets engaged in each type of SFT and TRS expressed as an absolute amount in the AIF's currency and as a proportion of the AIF's undertaking's assets under management;</li> </ul>
c.	Concentration data including: <ul style="list-style-type: none"> <li>• Ten largest collateral issuers across all SFTs and TRSs; and</li> <li>• Top ten counterparties of each type of SFTs and TRSs separately;</li> </ul>
d.	Aggregate transaction data for each type of SFT and TRS separately to be broken down according to the following categories: <ul style="list-style-type: none"> <li>• Type and quality of collateral;</li> <li>• Maturity tenor of the collateral broken down in the following maturity buckets: less than one day, one day to one week, one week to one month, one to three months, three months to one year, above one year and open transactions;</li> <li>• Country in which the counterparties are established; and</li> <li>• Settlement and clearing;</li> </ul>
e.	Data on reuse of collateral including: <ul style="list-style-type: none"> <li>• Share of collateral received that is reused, compared to the maximum amount specified in the prospectus or in the disclosure to investors; and</li> <li>• Crash collateral reinvestment return to the collective investment undertaking;</li> </ul>
f.	Safekeeping of collateral received by the AIF as part of SFTs and TRSs including: <ul style="list-style-type: none"> <li>• Number and names of custodians and the amount of collateral assets safe-kept by each of the custodians;</li> </ul>
g.	Safekeeping of collateral granted by the collective investment undertaking as part of SFTs and TRSs including: <ul style="list-style-type: none"> <li>• The proportion of collateral held in segregated accounts or in pooled accounts, or in any other accounts; and</li> </ul>
h.	Data on return and cost for each type of SFT and TRS broken down between the collective investment undertaking, the manager of the collective investment undertaking and third parties in absolute terms and a percentage of overall returns generated by that type of SFT and TRS.



## 17. Annex 5: Regulatory Reporting - Commitment Method for Calculating the Exposure of an AIF<sup>88</sup>

1.	The exposure of an AIF calculated in accordance with the commitment method shall be the sum of the absolute values of all positions <sup>89</sup> and its corresponding delegated acts, subject to the criteria provided for in bullet-points 2 to 9 below.
2.	For the calculation of the exposure of an AIF in accordance with the commitment method, an AIFM shall: <ul style="list-style-type: none"> <li>• Convert each derivative instrument position into an equivalent position in the underlying asset of that derivative using the conversion methodologies<sup>90</sup>;</li> <li>• Apply netting and hedging arrangements;</li> <li>• Calculate the exposure created through the reinvestment of borrowings where such reinvestment increases the exposure of the AIF<sup>91</sup>; and</li> <li>• Include other arrangements in the calculation<sup>92</sup>.</li> </ul>
3.	For the purposes of calculating the exposure of an AIF according to the commitment method: <ul style="list-style-type: none"> <li>• netting arrangements shall include combinations of trades on derivative instruments or security positions which refer to the same underlying asset, irrespective—in the case of derivative instruments—of the maturity date of the derivative instruments and where those trades on derivative instruments or security positions are concluded with the sole aim of eliminating the risks linked to positions taken through the other derivative instruments or security positions; and</li> <li>• hedging arrangements shall include combinations of trades on derivative instruments or security positions which do not necessarily refer to the same underlying asset and where those trades on derivative instruments or security positions are concluded with the sole aim of offsetting risks linked to positions taken through the other derivative instruments or security positions.</li> </ul>
4.	By way of derogation from bullet-point 2, a derivative instrument shall not be converted into an equivalent position in the underlying asset if it has all of the following characteristics: <ul style="list-style-type: none"> <li>• it swaps the performance of financial assets held in the AIF's portfolio for the performance of other reference financial assets;</li> <li>• it totally offsets the risks of the swapped assets held in the AIF's portfolio so that the AIF's performance does not depend on the performance of the swapped assets; and</li> <li>• it includes neither additional optional features, nor leverage clauses nor other additional risks as compared to a direct holding of the reference financial assets.</li> </ul>
5.	By way of derogation from bullet-point 2, a derivative instrument shall not be converted into an equivalent position in the underlying asset when calculating the exposure according to the commitment method if it meets both of the following conditions: <ul style="list-style-type: none"> <li>• the combined holding by the AIF of a derivative instrument relating to a financial asset and cash which is invested in cash equivalent<sup>93</sup> is equivalent to holding a long position in the given financial asset; and</li> <li>• the derivative instrument shall not generate any incremental exposure and leverage or risk.</li> </ul>

<sup>88</sup> **Article 8 of the AIFMD Level 2 Regulation.**

<sup>89</sup> Such positions must be valued in accordance with **Article 19 of Directive 2011/61/EU.**

<sup>90</sup> These are set out in **Annex II of the AIFMD Level 2 Regulation.**

<sup>91</sup> As defined in **paragraphs (1) and (2) of Annex I of the AIFMD Level 2 Regulation.**

<sup>92</sup> In accordance with **paragraphs (3) and (10) to (13) of Annex I.**

<sup>93</sup> As defined in **Article 7(a) of the AIFMD Level 2 Regulation.**

6.	<p>Hedging arrangements shall be taken into account when calculating the exposure of an AIF only if they comply with all the following conditions:</p> <ul style="list-style-type: none"> <li>• the positions involved within the hedging relationship do not aim to generate a return and general and specific risks are offset;</li> <li>• there is a verifiable reduction of market risk at the level of the AIF;</li> <li>• the risks linked to derivative instruments, general and specific, if any, are offset;</li> <li>• the hedging arrangements relate to the same asset class; and</li> <li>• they are efficient in stressed market conditions.</li> </ul>
7.	<p>Subject to bullet-point 6, derivative instruments used for currency hedging purposes and that do not add any incremental exposure, leverage or other risks shall not be included in the calculation.</p>
8.	<p>An AIFM shall net positions in any of the following cases:</p> <ul style="list-style-type: none"> <li>• between derivative instruments, provided they refer to the same underlying asset, even if the maturity date of the derivative instruments is different; and</li> <li>• between a derivative instrument whose underlying asset is a transferable security, money market instrument or units in a collective investment undertaking<sup>94</sup>, and that same corresponding underlying asset..</li> </ul>
9.	<p>AIFMs managing AIFs that, in accordance with their core investment policy, primarily invest in interest rate derivatives shall make use of specific duration netting rules in order to take into account the correlation between the maturity segments of the interest rate curve<sup>95</sup>.</p>

<sup>94</sup> As referred to in [points 1 to 3 of Section C of Annex I to Directive 2004/39/EC](#).

<sup>95</sup> As set out in [Article 11 of the AIFMD Level 2 Regulation](#).

## 18. Annex 6: Valuation - Items the Valuation Policy and Procedures Must Cover<sup>96</sup>

The valuation policy and procedures must cover all material aspects of the valuation process and valuation procedures and controls in respect of the relevant AIF and must address at least the following items:	
1.	The valuation methodologies used including the input, models and the selection criteria for pricing and market data sources;
2.	The obligations, roles and responsibilities of all parties involved in the valuation process, including the senior management of the AIFM;
3.	The competence and independence of personnel who are effectively carrying out the valuation of assets;
4.	The specific investment strategies of the AIF and the assets the AIF might invest in;
5.	The controls over the selection of valuation inputs, sources and methodologies;
6.	The escalation channels for resolving differences in values for assets;
7.	The valuation of any adjustments related to the size and liquidity of positions, or to changes in the market conditions, as appropriate;
8.	The appropriate time for closing the books for valuation purposes;
9.	The appropriate frequency for valuing assets;
10.	The process for the exchange of information between the AIFM and the external valuer to ensure that all necessary information required for the purpose of performing the valuation task is provided;
11.	The initial and periodic due diligence that is required on third parties that are appointed to perform valuation services;
12.	If a model is used to value an AIF, the model and its main features including a reasons for the choice of the model, the underlying data, the assumptions used in the model and the rationale for them and the limitations of the model-based valuations;
13.	The periodic review of the policies and procedures including the valuation methodologies which should be conducted at least annually and before the AIF engages with a new investment strategy or a new type of asset that is not covered by the actual valuation policy; and
14.	How a change to the valuation policy, including a methodology, may be affected and in what circumstances this would be approved.

<sup>96</sup> FUND 3.9.4. Cross-referring to Article 67 and Article 68 of the AIFMD Level 2 Regulation.

## 19. Annex 7: Valuation - Requirements that the Valuer Performing a Valuation Must Satisfy<sup>97</sup>

1.	An AIFM may perform the valuation itself, provided that: <ul style="list-style-type: none"> <li>• The valuation task is functionally independent from the portfolio management; and</li> <li>• The remuneration policy and other measures ensure that conflicts of interests are mitigated and that undue influence upon the employees involved is prevented.</li> </ul>
2.	If an AIFM performs the valuation task itself, the valuation policies must include a description of the safeguards for the functionally independent performance of the valuation task. Such safeguards shall include measures to prevent or restrain any person from exercising inappropriate influence over the way in which a person carries out valuation activities.
3.	An AIFM that does not perform the valuation function itself must ensure that the function is performed by an external valuer.
4.	An external valuer chosen by an AIFM to perform the valuation function cannot delegate valuation to a third party.
5.	Where an external valuer performs the valuation function, the AIFM must be able to demonstrate that: <ul style="list-style-type: none"> <li>• The external valuer is subject to mandatory professional registration recognised by law or legal or regulatory provisions or rules of professional conduct;</li> <li>• The external valuer can provide sufficient professional guarantees to be able to perform the relevant valuation function effectively under this section; and</li> <li>• The appointment of the external valuer complies with the requirements under the general conditions applicable to a delegate that carries out a function on the AIFM's behalf.<sup>98</sup></li> </ul>
6.	Where it is considered that the appointment of the external valuer does not comply with these requirements, the FCA may require an AIFM to appoint another external valuer.
7.	External valuers shall provide upon request professional guarantees in written form to demonstrate their ability to perform the valuation function. Such professional guarantee should contain evidence of the external valuer's qualification and capability to perform proper and independent valuation, including at least evidence of: <ul style="list-style-type: none"> <li>• Sufficient personnel and technical resources;</li> <li>• Adequate procedures safeguarding proper and independent valuation;</li> <li>• Adequate knowledge and understanding of the investment strategy of the AIF and of the assets the external valuers is appointed to value;</li> <li>• A sufficiently good reputation and sufficient experience with valuation; and</li> <li>• Where the external valuer is subject to mandatory professional registration with the competent authority of another entity of the state where it is established, the professional guarantee shall contain the name of this authority or entity, including the relevant contract information. The professional guarantee shall indicate clearly the legal or regulatory provisions or rules of professional conduct to which the external valuer is subject.</li> </ul>
8.	Where an external valuer performs the valuation function, they must be a person independent from: <ul style="list-style-type: none"> <li>• The AIF in respect of which the valuation function is performed;</li> <li>• The AIFM; and</li> <li>• Any other persons with close links to the AIF or the AIFM.</li> </ul>
9.	The depositary appointed for an AIF may not be appointed as an external valuer of that AIF unless: <ul style="list-style-type: none"> <li>• It has functionally and hierarchically separated the performance of its depositary functions from its tasks as an external valuer; and</li> <li>• The potential conflicts of interests are properly identified, managed, monitored and disclosed to the investors of the AIF.</li> </ul>

<sup>97</sup> [FUND 3.9.7/FUND 3.9.8/FUND 3.9.9/FUND 3.9.10/FUND 3.9.12](#). Cross-referring to [Article 73 of the AIFMD Level 2 Regulation](#).

<sup>98</sup> [FUND 3.10.2/FUND 3.10.3/FUND 3.10.7](#). Cross-referring to [Article 75 and Article 76 of the AIFMD Level 2 Regulation](#). See Rule 31 in this document.

## 20. Annex 8: Delegation - Conditions to Fulfil when a Delegate Carries Out a Function on Behalf of the AIFM<sup>99</sup>

An AIFM must ensure the following conditions are met when a delegate carries out any function on its behalf:	
1.	The AIFM has notified the FCA of the delegation before the delegation arrangements become effective;
2.	<p>The AIFM is able to justify its entire delegation structure with objective reasons. To assess this, the following criteria shall be considered:</p> <ul style="list-style-type: none"> <li>• Optimizing of business functions and processes;</li> <li>• Cost saving;</li> <li>• Expertise of the delegate in administration or in specific markets or investments;</li> <li>• Access of the delegate to global trading capabilities; and</li> <li>• The delegate has sufficient resources to perform the respective activity and the persons who effectively conduct the business of the delegate are of sufficiently good repute and experience;</li> </ul>
3.	<p>Where the delegation is conferred on a non-UK delegate, cooperation between the FCA and the supervisory authority of the delegate is ensured;</p> <ul style="list-style-type: none"> <li>• The cooperation arrangement in place between the two authorities must be written and must allow the FCA to: <ul style="list-style-type: none"> <li>— Obtain on request the relevant information necessary to carry out their supervisory tasks;</li> <li>— Obtain access to the documents relevant for the performance of their supervisory tasks maintained in the country of the non-UK delegate;</li> <li>— Carry out on-site inspections on the premises of the undertaking to which functions were delegated. The practical procedures for on-site inspections shall be detailed in the written arrangement;</li> <li>— Receive as soon as possible information from the supervisory authority in the country of the non-UK delegate for the purpose of investigating apparent breaches of the requirements in this column; and</li> <li>— Cooperate in enforcement in accordance with the national and international law applicable to the supervisory authority of the non-UK delegate in cases of breaches of the requirements in this column;</li> </ul> </li> </ul>
4.	The delegation does not prevent the FCA from supervising the AIFM effectively and, in particular, does not prevent the AIFM from acting, or the AIF from being managed, in the best interests of its investors;
5.	<p>The AIFM is able to demonstrate that:</p> <ul style="list-style-type: none"> <li>• The delegate is qualified and capable of undertaking the functions in question;</li> <li>• It was selected with all due care; and</li> <li>• The AIFM can monitor the delegated activity effectively at any time, give further instructions to the delegate at any time and withdraw the delegation with immediate effect when this is in the interest of investors;</li> </ul>
6.	The delegation structure does not allow for the circumvention of the AIFM's responsibilities or liability;
7.	The obligations of the AIFM towards the AIF and its investors are not altered as a result of the delegation;
8.	<p>The delegation is conferred only on a delegated that is authorised or registered for the purpose of asset management and subject to supervision;</p> <ul style="list-style-type: none"> <li>• The FCA may consent to the delegation by a full-scope UK AIFM of its AIFM investment management functions to an entity which is not authorised or registered for the purpose of asset management and subject to supervision;</li> </ul>
9.	The delegate discloses to the AIFM any development that may have a material impact on the delegate's ability to carry out the delegated functions effectively;
10.	The delegate protects any confidential information relating to the AIFM;
11.	The delegate establishes, implements and maintains a contingency plan for disaster recovery and periodic testing of backup facilities while taking into account the types of delegated functions;
12.	The delegation arrangement takes the form of a written agreement concluded between the AIFM and the delegate; and
13.	The written agreement must include the respective rights and obligations of the AIFM and the delegate are clearly allocated and set out in the agreement such that the AIFM can ensure its instruction and termination rights, its rights of information and its right to inspections and access to books and premises.

<sup>99</sup> FUND 3.10.2/FUND 3.10.3/FUND 3.10.7. Cross-referring to [Article 75 and Article 76 of the AIFMD Level 2 Regulation](#).

## 21. Annex 9: Delegation - Situations in which an AIFM is Considered a Letter-box Entity<sup>100</sup>

An AIFM shall be deemed a letter-box entity and shall no longer be considered to be the manager of the AIF in at least in any of the following situations:	
1.	The AIFM no longer retains the necessary expertise and resources to supervise the delegated tasks effectively and manage the risks associated with the delegation;
2.	The AIFM no longer has the power to make decisions in key areas which fall under the responsibility of the senior management or no longer has the power to perform senior management functions in particular in relation to the implementation of the general investment policy and investment strategies;
3.	The AIFM loses its contractual rights to inquire, inspect, have access or give instructions to its delegates or the exercise of such rights becomes impossible in practice; and
4.	<ul style="list-style-type: none"> <li>• The AIFM delegates the performance of investment management functions to an extent that exceeds by a substantial margin the investment management functions performed by the AIFM itself. When assessing the extent of delegation, competent authorities shall assess the entire delegation structure taking into account not only the assets managed under delegation but also the following qualitative criteria:</li> <li>• The types of assets the AIF or the AIFM acting on behalf of the AIF is invested in, and the importance of the assets managed under delegation for the risk and return profile of the AIF;</li> <li>• The importance of the assets under delegation for the achievement of the investment goals of the AIF;</li> <li>• The geographical and sectoral spread of the AIF's investments;</li> <li>• The risk profile of the AIF;</li> <li>• The type of investments pursued by the AIF;</li> <li>• The types of tasks delegated in relation to those retained; and</li> <li>• The configuration of delegates and their sub-delegates, their geographical sphere of operation and their corporate structure including whether the delegation is conferred on an entity belonging to the same corporate group as the AIFM.</li> </ul>

<sup>100</sup> FUND 3.10.8 and 3.10.9.

## 22. Annex 10: Depositaries - Elements which the Written Contract for the Appointment of the Depositary Must Include<sup>101</sup>

An AIFM and a depositary must ensure that the appointment of the depositary is evidenced in written contract which must include at least the following elements:	
1.	A description of the services to be provided by the depositary and the procedures to be adopted for each type of assets in which the AIF may invest and which shall then be entrusted to the depositary;
2.	A description of the way in which the safekeeping and oversight function is to be performed depending on the types of assets and the geographical regions in which the AIFs plans to invest;
3.	<p>A statement that the depositary's liability shall not be affected by any delegation of its custody functions unless it had discharged itself of its liability in accordance with the following rules<sup>102</sup>:</p> <p>In the case of a loss of financial instruments held in custody by a third party, the depositary may discharge itself of liability if it can prove that:</p> <ul style="list-style-type: none"> <li>• The tasks are not delegated with the intention of avoiding the requirements of a depositary;</li> <li>• The depositary can demonstrate that there is an objective reason for the delegation;</li> <li>• The depositary has exercised all due skill, care and diligence in the selection and the appointment of any third party to whom it wants to delegate parts of its tasks, and keeps exercising all due skill, care and diligence in the periodic review and ongoing monitoring of any third party to whom it has delegated parts of its tasks and of the arrangements of the third party in respect of the matters delegated to it;</li> <li>• The depositary ensures that the third party meets the following conditions at all times during the performance of the tasks delegated to it: <ul style="list-style-type: none"> <li>• The third party has the structures and the expertise that are adequate and proportionate to the nature and complexity of the assets of the AIF or the AIFM acting on behalf of the AIF which have been entrusted to it;</li> <li>• For custody duties, the third party is subject to effective prudential regulation, including minimum capital requirements, and supervision in the jurisdiction concerned and the third party is subject to an external periodic audit to ensure that the financial instruments are in its possession;</li> <li>• The third party segregates the assets of the depositary's clients from its own assets and from the assets of the depositary in such a way that they can at any time be clearly identified as belonging to clients of a particular depositary;</li> <li>• The third party does not make use of the assets without the prior consent of the AIF or the AIFM acting on behalf of the AIF and prior notification to the depositary; and</li> <li>• The third party complies with the general obligations and prohibitions required from a depositary.</li> </ul> </li> <li>• A written contract between the depositary and the third party expressly transfers the liability of the depositary to that third party and makes it possible for the AIF or the AIFM acting on behalf of the AIF to make a claim against the third party in respect of the loss of financial instruments or for the depositary to make such a claim on their behalf; and</li> <li>• A written contract between the depositary and the AIF or the AIFM acting on behalf of the AIF, expressly allows a discharge of the depositary's liability and establishes the objective reason to contract such a discharge.</li> <li>• In the case where the law of a third country requires that certain financial instruments are held in custody by a local entity, the third party local entity must be subject to effective prudential regulation, including minimum capital requirements, and supervision in the jurisdiction concerned, and must be subject to an external periodic audit to ensure that the financial instruments are in its possession. Where there are no local entities that satisfy the delegation requirement, the depositary can discharge itself of liability provided that the following conditions are met:</li> </ul>

<sup>101</sup> FUND 3.11.19. Cross-referring to [Article 83 of the AIFMD Level 2 Regulation](#).

<sup>102</sup> [Article 21\(13\) and \(14\) of Directive 2011/61/EU](#).

4.	The period of validity and the conditions for amendment and termination of the contract including the situations which could lead to the termination of the contract;
5.	The confidentiality obligations applicable to the parties in accordance with relevant laws and regulations;
6.	The means and procedures by which the depositary transmits to the AIFM or the AIF all relevant information that it needs to perform its duties including the exercise of any rights attached to assets, and in order to allow the AIFM and the AIF to have a timely and accurate overview of the accounts of the AIF;
7.	The means and procedures by which the AIFM or the AIF transmits all relevant information or ensures the depositary has access to all the information it needs to fulfil its duties;
8.	Information on whether or not the depositary, or a third party to whom safekeeping functions are delegated may re-use assets it has been entrusted with and conditions attached to any such re-use;
9.	The procedures to be followed when an amendment to the AIF rules, instruments of incorporation or offering documents is being considered;
10.	All necessary information that needs to be exchanged between the AIF, the AIFM, a third party acting on behalf of the AIF or the AIFM, on the one hand, and the depositary, on the other hand, related to the sale, subscription, redemption, issue, cancellation and repurchase of units or shares of the AIF;
11.	All necessary information that needs to be exchanged between the AIF, the AIFM, a third party acting on behalf of the AIF or the AIFM and the depositary related to the performance of the depositary's oversight and control function;
12.	Information on all cash accounts opened in the name of the AIF or in the name of the AIFM acting on behalf of the AIF;
13.	Details regarding the depositary's escalation procedures;
14.	A commitment by the depositary to notify the AIFM when it becomes aware that the segregation of assets is not, or is no longer sufficient to ensure protection from insolvency of a third party to whom safekeeping functions are delegated;
15.	The procedures ensuring that the depositary, in respect of its duties, has the ability to enquire into the conduct of the AIFM and, as the case may be, or the AIF and to assess the quality of information transmitted; and
16.	The procedures ensuring that the AIFM and the AIF can review the performance of the depositary in respect of the depositary's contractual obligations.



## 23. Annex 11: Depositaries - Depositary Functions: Safekeeping of Financial Instruments<sup>103</sup>

A depositary must hold in custody all AIF custodial assets. The depositary must ensure that:	
1.	All AIF custodial assets that can be registered in a financial instruments account are registered in the depositary's books within segregated accounts opened in the name of the AIF, or the AIFM acting on behalf of the AIF, so that they can be clearly identified as belonging to the AIF at all times in accordance with the applicable law and <b>CASS 6.1.161A</b> ;
2.	Reconciliations are conducted on a regular basis between the depositary's internal accounts and records and those of any third party to whom custody functions are delegated;
3.	Due care is exercised in relation to the financial instruments held in custody in order to ensure a high standard of investor protection;
4.	All relevant custody risks throughout the custody chain are assessed and monitored and the AIFM is informed of any material risk identified; and
5.	Adequate organisational arrangements are introduced to minimise the risk of loss or diminution of the financial instruments, or of rights in connection with those financial instruments.

<sup>103</sup> FUND 3.11.21 and Article 89 of AIFMD Level 2 Regulation.

## 24. Annex 12: Depositaries - Depositary Functions: Safekeeping of Other Assets<sup>104</sup>

For assets of the AIF that are not AIF custodial assets, a depositary must:	
1.	Verify that the AIF, or the AIFM acting on behalf of the AIF, is the owner of the assets based on information or documents provided by the AIF or the AIFM and, where available, on external evidence; and
2.	Maintain, and keep up to date a record of those assets for which it is satisfied that the AIF, or the AIFM acting on behalf of the AIF, is the owner.

## 25. Annex 13: Depositaries - Depositary Functions: Cash Monitoring<sup>105</sup>

A depositary must ensure that the AIF's cash flows are properly monitored and that:	
1.	All payments made by, or on behalf of, investors upon the subscription of units or shares of an AIF have been received;
2.	<p>Verify that the AIF, or the AIFM acting on behalf of the AIF, is the owner of the assets based on information or documents provided by the AIF or the AIFM and, where available, on external evidence; and</p> <ul style="list-style-type: none"> <li>• All cash of the AIF has been booked in cash accounts opened: <ul style="list-style-type: none"> <li>— In the name of: <ul style="list-style-type: none"> <li>▪ The AIF; or</li> <li>▪ The AIFM acting on behalf of the AIF; or</li> <li>▪ The depositary acting on behalf of the AIF<sup>106</sup>; and</li> </ul> </li> <li>— At: <ul style="list-style-type: none"> <li>▪ A central bank; or</li> <li>▪ A CRD credit institution; or</li> <li>▪ A bank authorised in a non-EEA country; or</li> <li>▪ Another entity of the same nature, in the relevant market where cash accounts are required, provided such an entity is subject to effective prudential regulation and supervision which have the same effect as UK law and are effectively enforced and in accordance with the principles set out in <b>Article 2 of the MiFID Delegated Directive</b> which refers to the safeguarding of client financial instruments and funds.</li> </ul> </li> </ul> </li> </ul>

<sup>104</sup> **FUND 3.11.23.**

<sup>105</sup> **FUND 3.11.20.**

<sup>106</sup> Where cash accounts are opened in the name of the depositary acting on behalf of the AIF, the depositary must ensure that no cash of the entity referred to in this Rule, and none of the depositary's own cash, is booked on such accounts (**FUND 3.11.20**).

## 26. Annex 14: Depositaries - Delegation Functions: Oversight<sup>107</sup>

A depositary must:	
1.	Ensure that the sale, issue, repurchase, redemption and cancellation of units or shares of the AIF are carried out in accordance with the applicable national law and the instrument constituting the fund;
2.	Ensure that the value of the units or shares of the AIF is calculated in accordance with the applicable national law, the instrument constituting the fund and the valuation obligations outlined in <b>FUND 3.9</b> (see Section 10 of this document);
3.	Carry out the instructions of the AIFM, unless they conflict with the applicable national law or the instrument constituting the fund;
4.	Ensure that in transactions involving the AIF's assets, any consideration is remitted to the AIF within the usual time limits;
5.	Ensure that an AIF's income is applied in accordance with the applicable national law and the instrument constituting the fund; and
6.	Establish a clear and comprehensive escalation procedure to deal with situations where potential irregularities are detected in the course of its oversight duties.

<sup>107</sup> **FUND 3.11.25** and **Article 92 of the AIFMD Level 2 Regulation**.

## 27. Schedule 1: Regulatory Reporting - Regulatory Requirements for a UK AIFM of a UK AIF or a UK AIFM of a Non-UK AIF Marketed in the UK<sup>108</sup>

1. An AIFM must regularly report to the FCA information that includes:	
a.	The main instruments in which it is trading;
b.	The principal markets of which it is a member or where it actively trades;
c.	The principal exposures and the most important concentrations of each AIF it manages;
d.	The geographical focus of investments expressed as a percentage of the total value of assets under management;
e.	An indication of whether a short position is used to hedge a position with a similar economic exposure;
f.	The Value at Risk, if this is calculated for the AIF for any other purpose;
g.	The portfolio's sensitivity to a change in foreign exchange rates and commodity prices, if this is calculated for the AIF for any other purpose; <sup>109</sup>
h.	Certain disclosures concerning its liquidity arrangements;
i.	Risk profile;
j.	Risk management arrangements;
k.	Main categories of assets; and
l.	Results of stress tests; <sup>110</sup>
m.	An AIFM may be requested by the FCA to provide a detailed list of all AIFs which it manages at the end of each quarter <sup>111</sup> .
2. An AIFM managing an AIF that employs leverage on a substantial basis <sup>112</sup> must make the following information available:	
a.	The overall level or leverage employed by the AIF;
b.	A breakdown of leverage arising from the borrowing of cash or securities and leverage embedded in financial derivatives;
c.	The extent to which the AIF's assets have been reused under leveraging arrangements; and
d.	The identity of the five largest sources of borrowed cash or securities for the AIF, and the amounts of leverage received from each of those sources. <sup>113</sup>

<sup>108</sup> **FUND 3.4.** More granular detail can be found in [Articles 110 and 111 of the AIFMD Level 2 Regulation](#). A granular reporting template and guidance provided by the FCA is available [here](#).

<sup>109</sup> **FUND 3.4.2/FUND 3.4.6A.**

<sup>110</sup> **FUND 3.4.3.**

<sup>111</sup> **FUND 3.4.4.** Information in relation to the frequency of the reporting can be found in [Art.110 of the AIFMD Level 2 Regulation](#) and the reporting end-dates can be found in [SUP 16.18.5](#). More granular detail on the reporting requirements can be found in [ESMA's opinion on the "Collection of information for the effective monitoring of systemic risk under article 24\(5\), first sub-paragraph, of the AIFMD" \(ESMA 2013/1340\) dated 1 October 2013](#).

<sup>112</sup> Leverage is considered to be employed on a substantial basis when the exposure of an AIF exceeds three times its net asset value (**FUND 3.4.6**). The exposure of an AIF is calculated according to the commitment method under [Article 8 of AIFMD Level 2 Regulation](#) outlined in Annex 5

<sup>113</sup> **FUND 3.4.5.**

## 28. Schedule 2: Regulatory Reporting - Regulatory Requirements for a UK AIFM of a Non-UK AIF Not Marketed in the UK<sup>114</sup>

<b>1. An AIFM must regularly report to the FCA the following:</b>	
a.	The main instruments in which it is trading;
b.	The principal markets of which it is a member or where it actively trades;
c.	The principal exposures and the most important concentrations of each AIF it manages;
d.	The geographical focus of investments expressed as a percentage of the total value of assets under management;
e.	An indication of whether a short position is used to hedge a position with a similar economic exposure;
f.	The Value at Risk, if this is calculated for the AIF for any other purpose;
g.	The portfolio's sensitivity to a change in foreign exchange rates and commodity prices, if this is calculated for the AIF for any other purpose; <sup>115</sup>
h.	An AIFM may be requested by the FCA to provide a detailed list of all AIFs which it manages at the end of each quarter; <sup>116</sup>
<b>2. An AIFM managing an AIF that employs leverage on a substantial basis must make the following information available:</b>	
a.	The overall level or leverage employed by the AIF;
b.	<ul style="list-style-type: none"> <li>A breakdown of leverage arising from the borrowing of cash or securities and leverage embedded in financial derivatives;</li> </ul>
c.	<ul style="list-style-type: none"> <li>The extent to which the AIF's assets have been reused under leveraging arrangements; and</li> </ul>
d.	<ul style="list-style-type: none"> <li>The identity of the five largest sources of borrowed cash or securities for the AIF, and the amounts of leverage received from each of those sources.<sup>117</sup></li> </ul>
<p><b>3. If an AIFM manages a non-UK AIF that is not marketed in the UK and the feeder AIF which is marketed in the UK and meets the assets under management threshold,<sup>118</sup> the AIFM must report on both AIFs, the master fund and the feeder fund.<sup>119</sup></b></p> <p><b>Just by virtue of doing this report, the master fund does not become the AIF that is registered for marketing.</b></p>	
<p><b>4. If an AIFM manages a non-UK AIF that is not marketed in the UK and the feeder AIF which is marketed in the UK and meets the assets under management threshold, the AIFM must also report for each non-UK AIF it manages that is not marketed in the UK information that includes:</b></p>	
a.	Certain disclosures concerning its liquidity arrangements;
b.	Risk profile;
c.	Risk management arrangements;
d.	Main categories of assets; and
e.	Results of stress tests. <sup>120</sup>

<sup>114</sup> **FUND 3.4.** More granular detail can be found in **Articles 110 and 111 of the AIFMD Level 2 Regulation**. A granular reporting template and guidance provided by the FCA is available [here](#).

<sup>115</sup> **FUND 3.4.2/FUND 3.4.6A.**

<sup>116</sup> **FUND 3.4.4.**

<sup>117</sup> **FUND 3.4.5/3.4.6.**

<sup>118</sup> An AIFM meets the assets under management threshold if:

(1) an AIFM manages the portfolio of AIFs whose assets under management including any assets acquired through use of leverage in total do not exceed a threshold of €100 million; or

(2) an AIFM manages the portfolios of AIFs whose assets under management in total do not exceed a threshold of €500 million when the portfolios of AIFs consist of AIFs that are unleveraged and have no redemption rights exercisable during a period of five years following the date of initial investment in each AIF (**Article 3(2) of Directive 2011/61/EU**).

<sup>119</sup> **FUND 3.4.6A/3.4.6C.**

<sup>120</sup> **FUND 3.4.6A/3.4.6C/FUND 3.4.3.**



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