

MEMO# 32366

April 8, 2020

COVID 19 - UK FCA's Further COVID 19 Guidance to Funds

[32366]

April 8, 2020 TO: Chief Compliance Officer Committee
Chief Risk Officer Committee
International Compliance Advisory Committee
International Internal Audit Advisory Committee
Technology Committee RE: COVID 19 - UK FCA's Further COVID 19 Guidance to Funds

On April 6, the UK Financial Conduct Authority (FCA) issued guidance to funds regarding delaying annual and half-yearly fund reports (and value assessments), virtual general meetings, compliance with limits on value at risk (VaR), and electronic signatures on documents submitted to the FCA.[\[1\]](#) This guidance is briefly summarized below.

Temporary Relief - Extended Deadlines to Publishing Fund Reports; Value Assessments[\[2\]](#)

Currently, funds authorised under the UCITS Directive must publish audited annual reports and accounts within 4 months of the annual accounting reference date. This also applies to UK authorised open-ended funds operating as non-UCITS retail schemes (NURS). In addition, authorised fund managers (AFMs) must publish a statement setting out their assessment of value in the fund's annual report, unless the AFM provides the statement in a separate composite report.

While noting that the FCA expects firms to publish reports on time, if they can publish within the usual time limits without compromising the quality of the reporting and in line with the current health guidelines, the FCA still provided the temporary relief (described below), recognizing the operational challenges for funds' reporting processes.

The FCA noted that this policy is temporary while the UK faces the extreme disruption of the Covid-19 pandemic and its aftermath. The FCA plans to announce the end the policy in a fair, orderly, and transparent way.

Extra 2 Months for Annual Reports

The temporary relief permits an additional 2 months for the authorised fund managers of UK UCITS schemes and non-UCITS retail schemes for completing their funds' annual reports. Firms, however, must inform the FCA if they wish to take advantage of this relief.

Extra Month for Half-Yearly Reports

For half-yearly reports, the relief permits one extra month for publication. As with the 2-month extension, firms must inform the FCA if they plan to rely on this extension.

The FCA guidance reminds firms that they must continue to uphold the best interests of their investors at all times and it expects firms to contact the FCA, when appropriate, to communicate issues of material concern under Principle 11. The FCA also expects AFMs to work closely with their depositaries and ensure that decisions are made in line with good standards of governance. The FCA will continue to maintain oversight of the authorised fund sector through data reports and dialogue with investment managers.

Process for Using the Temporary Relief

According to the FCA guidance, AFMs that wish to use the additional time should:

- Promptly inform the fund's depositary and auditors;
- Email the FCA with details of the funds this will apply to and the intended new date of publication: ukcis@fca.org.uk;
- Publish a prominent statement on their website, no later than the original publishing date of the annual or half-yearly report, explaining the reasons for their decision and giving the revised publication date; and
- Consider what other steps they could take to bring the deferred publication date to the attention of unit holders.

On Value Assessments

In the Questions and Answers (Q&As) related to this temporary relief, the FCA stated it expects AFMs to complete assessments of value and to publish them within usual time limits where this can be done: (i) without compromising the quality of the assessments or the reporting; and (ii) in line with health guidelines to contain the spread of Covid-19. However, if firms need to make use of the temporary relief, they have up to 6 months from the end of the financial year to publish the statement on the assessment of value, whether it is contained in the annual long report or a composite report. During this time, the FCA expects AFMs to maintain high standards of governance on assessing value process and to continue to work on reports to ensure they are ready for publication in line with the annual report and accounts.

Virtual General Meetings

In response to questions about virtual general meetings, the FCA stated that it does not have a supervisory concern about meetings being held virtually. It noted that fund documentation may contain details about arrangements that are additional to what is prescribed by the FCA rules. Since the FCA cannot forbear on private law obligations owed by authorised fund managers to unit holders or claims that they might bring, it advised that AFMs should consider the terms of their fund documentation, including prospectuses and instrument of incorporation, when making arrangements for meetings during this time.

Ensuring Compliance with Limits on Value at Risk (VaR)

The FCA observed that it understands that some authorised fund managers have experienced issues ensuring compliance with limits on value at risk (VaR) as part of their risk-limit systems. The FCA stated that it expects firms to have plans in place to deal with such events and to take appropriate remediation action taking into account market

conditions and what is in the best interests of their customers. For those individual firms that continue to face issues managing their funds within risk limits generally, and VAR limits specifically, the FCA suggested that they should speak to their supervisory contacts in the first instance, or contact firm.queries@fca.org.uk.

Electronic Signatures

The FCA stated that it is aware that some firms are making fund-related applications to the FCA and are struggling to obtain wet signatures (i.e., physical signatures) on such applications. In response, the FCA said it is willing to accept electronic signatures on applications to authorise funds or approve changes to funds during the coronavirus crisis. According to the FCA, where it is possible for the applicant to validate accompanying documentation electronically, the applicant may do so. In all cases where an electronic signature is used, the FCA wants to be assured that the signatory has seen and agreed with all the information in the form. Importantly, this clarification applies only to information sent by firms to the FCA.
egin typing here

Anna Driggs
Director and Associate Chief Counsel
ICI Global

endnotes

[1] See <https://www.fca.org.uk/firms/fca-expectations-regarding-funds-coronavirus>.

[2] See <https://www.fca.org.uk/firms/extending-deadlines-publishing-fund-reports-and-accounts>.