Chapter 14

Charity authorised investment funds

14.4 Income allocation and distribution

Income reserve account

14.4.1 R As an exception to ■ COLL 6.8.3R(3) (Income allocation and distribution), a *charity authorised investment fund* is not required to transfer income to a *distribution account* where this is allowed by ■ COLL 14.4.2R.

14.4.2 R

(1) The *authorised fund manager* and the *depositary* of a *charity authorised investment fund* may establish an income reserve account for the *scheme* if this is provided for in:

(a) the *instrument constituting the fund*; and

(b) the *prospectus*.

(2) (a) The *authorised fund manager* may instruct the *depositary* to transfer up to 15% of the income available for allocation or distribution on an *annual income allocation date* to the income reserve account.

(b) Any income transferred under (a) remains part of the *income property* of the *scheme* but is not available for allocation or distribution.

(c) The transfer in (a) must be for the sole purpose of avoiding fluctuations in the income available for allocation or distribution for the *annual accounting period*.

(3) The *authorised fund manager* may instruct the *depositary* to transfer income in the income reserve account to the *income account*.

(4) The *authorised fund manager* and the *depositary* must treat:

(a) any income transferred from the income reserve account to the *income account* as income available for allocation or distribution at the next *annual income allocation date*; and

(b) any interest or other amounts earned on the income in the income reserve account as income due to the *scheme*.

14.4.3 R The *authorised fund manager* of a *charity authorised investment fund* with an income reserve account must not allow a payment that has been allocated to *income property* in the first instance to be made from the *capital account* if that payment could be met, in whole or in part, by transferring income from the income reserve account to the *income account*.

14.4.4 R

(1) ■ COLL 14.4.1R ceases to apply if the *scheme* commences winding up or termination in accordance with:

(a) ■ COLL 7.3.6R (Consequences of commencement of winding up or termination) for an *ICVC*; or

(b) ■ COLL 7.4.3R (When an AUT is to be wound up or a sub-fund terminated) for an *AUT*; or

(c) ■ COLL 7.4A.4R (When an ACS is to be wound up or a sub-fund of a co-ownership scheme terminated) for an *ACS*.

(2) Any income in the income reserve account must be transferred to the *income account* as soon as practicable after the winding up or termination commences.

Total return approach

14.4.5 R

(1) The *authorised fund manager* and *depositary* of a *charity authorised investment fund* may adopt a total return approach to the allocation or distribution of income where this is provided for in:

(a) the *instrument constituting the fund*; and

(b) the *prospectus*.

(2) Under a total return approach the *authorised fund manager* may make transfers between the *capital account* and the *income account* in addition to those in ■ COLL 6.8.3R(3A)(c).

(3) The *authorised fund manager* and *depositary* must ensure that any transfer under a total return approach:

(a) is solely for the purpose of meeting the pre-determined target amount disclosed in the *prospectus* in accordance with ■ COLL 14.4.6R(1); and

(b) is consistent with the explanation given in the *prospectus* in accordance with ■ COLL 14.4.6R(2).

14.4.6 R

If the *charity authorised investment fund* has adopted a total return approach to the allocation or distribution of income, the *authorised fund manager* must ensure that the *prospectus* contains:

(1) the pre-determined target of the income available for allocation or distribution in any *annual accounting period*; and

(2) an explanation of how the target amount is consistent with the investment objective and policy and the distribution policy of the *scheme*.

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