

**NEW COLLECTIVE INVESTMENT SCHEMES SOURCEBOOK
(DUAL PRICING) INSTRUMENT 2006**

Powers Exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power);
 - (b) section 140 (Restriction on managers of authorised unit trust schemes);
 - (c) section 156 (General supplementary powers);
 - (d) section 157 (Guidance);
 - (e) section 238(5) (Restrictions on promotion);
 - (f) section 242 (Applications for authorisation of unit trust schemes);
 - (g) section 247 (Trust scheme rules); and
 - (h) section 248 (Scheme particulars rules); and
 - (2) regulation 6 (FSA rules) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228).
- B. The rule-making powers and related provisions listed above are specified for the purpose of section 153(2) of the Act (Rule-making instruments).

Commencement

- C. This instrument comes into force on 6 October 2006, except that text in Annex A which is placed in bold square brackets is deleted with effect from 12 February 2007.

Amendments to the Handbook

- D. The modules of the FSA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
New Collective Investment Schemes sourcebook (COLL)	Annex B

Citation

- E. This instrument may be cited as the New Collective Investment Schemes Sourcebook (Dual Pricing) Instrument 2006.

By order of the Board
28 September 2006

Annex A

Amendments to the Glossary of definitions

In this Annex underlining indicates new text and striking through indicates deleted text. However, Handbook text in this Annex placed in bold square brackets is deleted with effect from 12 February 2007 but is not shown struck through.

Amend the following definitions as shown:

...

bid price the price ~~price~~ at which a person could sell a unit in a dual-priced authorised fund AUF or a security.

...

cancellation price (in *COLL*)
(in relation to the *cancellation of units in a dual-priced authorised fund*) the price for each unit payable by the depositary to the authorised fund manager on that cancellation.

...

dilution (in *COLL* [and *CIS*]) the amount of *dealing* costs incurred, or expected to be incurred, by ~~an ICVC~~ or for the account of a *single-priced authorised fund AUF* to the extent that these costs may reasonably be expected to result, or have resulted, from the acquisition or disposal of *investments* by ~~the ICVC~~ or for the account of the *single-priced authorised fund AUF* as a consequence (whether or not immediate) of the increase or decrease in the cash resources of the ~~ICVC or single-priced authorised fund AUF~~ resulting from the *issue* or *cancellation of units* over a period;

for the purposes of this definition, *dealing* costs include both the costs of *dealing* in an *investment*, professional fees incurred, or expected to be incurred, in relation to the acquisition or disposal of ~~an immovable approved immovables~~ and, where there is a spread between the *buying* and *selling* prices of the *investment*, the indirect cost resulting from the differences between those prices ~~prices~~.

...

dilution adjustment an adjustment to the price ~~price~~ of a unit determined by the ~~ACD, or the authorised fund manager~~ of a *single-priced authorised fund AUF*, under *COLL* 6.3.8 R (Dilution) [or, as the case may be, *CIS* 4.6.4R (Dilution adjustment)] for the purpose of reducing *dilution*.

...

dilution levy a charge of such amount or at such rate as is determined by ~~the an ACD of an ICVC or a~~ authorised fund manager of a *single-priced authorised fund AUF* to be made for the purpose of reducing the effect of *dilution*.

...

dual-priced AUT [an AUT that is not a *single-priced-AUT*.]

...

dual-priced authorised fund an authorised fund or, in the case of an umbrella, a sub-fund (if it were a separate fund), that is not a single-priced authorised fund.

...

initial price (in COLL [and CIS])

in relation to a unit of any class:

(a) ~~(in relation to a share of an ICVC or a unit in a single priced AUT single-priced authorised fund,)~~ the price to be paid for a unit of any class during the period of the initial offer under COLL 6.2.3R (Initial offers) or, as the case may be, CIS 4.2.4 R (*Issue of units: initial offer*); or

(b) ~~(in relation to a unit in a dual-priced authorised fund, AUT)~~ such the amount as may be agreed by the depository trustee and authorised fund manager as being the maximum amount price, inclusive of the manager's preliminary charge, if any preliminary charge, which that may be paid to the authorised fund manager; ~~for units on an initial offer.~~

during the period of the initial offer under COLL 6.2.3R (Initial offer) [or, as the case may be, CIS 4.2.4R (Issue of units: initial offer) or CIS 15.2.4R and 15.2.5R (Issue of units: initial offer)].

...

issue price (in relation to the *issue of units of a dual-priced AUT authorised fund*) the ~~price~~ price for each unit payable by the authorised fund manager to the ~~trustee~~ depository on that issue.

...

large deal [(in CIS) a transaction (or series of transactions in one dealing period) by any person to buy, sell or exchange units in an authorised fund at a total value of £15,000 or its equivalent in the base currency of the authorised fund, or;

(a) for the purpose of SDRT provision, such other value; or

(b) for all or any other specified purposes, such greater value;

as may be specified in the prospectus;]

(in COLL) a transaction (or ~~series of transactions~~ series of transactions in one dealing period) by any person to buy, sell or exchange units in an authorised fund, of any value as set out in the prospectus, for the purposes of:

(a) an SDRT provision;

(b) a *dilution levy*; ~~or~~

(c) a *dilution adjustment*; or

(d) calculating the prices, for a dual-priced authorised fund, at which units may be sold or redeemed.

...

offer price the price at which a *person* could purchase a *unit* in a *dual-priced authorised fund AUT* or a *security*.

...

price [(in CIS)

(in relation to a ~~unit~~ *unit* in an ~~ICVC~~ *ICVC* or a ~~single-priced AUT~~ *single-priced AUT*) the ~~price~~ *price* of the *unit* calculated in accordance with ~~COLL 6.3 (Valuation and pricing)~~ or, as the case may be, ~~CIS~~ *CIS* 4 (Single ~~pricing~~ *pricing* and ~~dealing~~ *dealing*).]

(in COLL)

(in relation to a unit in an authorised fund) the price of the unit calculated in accordance with COLL 6.3 (Valuation and pricing).

...

redemption price [(in CIS)

the ~~authorised fund manager's price~~ *authorised fund manager's price* for *redemption* under ~~CIS~~ *CIS*.15.4.9R (Redemption price parameters).]

(in COLL)

the price payable by the authorised fund manager for each unit it redeems from a unitholder, calculated in accordance with COLL 6.3 (Valuation and pricing).

...

sale price (in COLL)

the price payable to the authorised fund manager for each unit it sells to a unitholder, calculated in accordance with COLL 6.3 (Valuation and pricing).

...

single-priced AUT [an *AUT* for the *units* of which there is only one *price* applicable by reference to a *valuation point*.]

...

single-priced authorised fund an authorised fund or, in the case of an umbrella, a sub-fund (if it were a separate fund), for the units of which there is only one price applicable by reference to a valuation point.

...

unitisation arrangements for a newly formed ~~dual-priced~~ AUT under which:

(a) the whole or part of the property of a *body corporate* (or a *collective investment scheme*) becomes the first property to be held on the trusts of the AUT; and

(b) the *holders* of :

(i) shares (or units) in the body corporate (or collective investment scheme) being wound up; or

(ii) units in the collective investment scheme, the property of which is being transferred;

become the first *participants* in the AUT.

...

Annex B

Amendments to the New Collective Investment Schemes sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

Table: contents of the prospectus

4.2.5 R ...

Valuation and pricing of scheme property

16 In relation to the valuation ~~and pricing~~ of *scheme property* and pricing of units:

(a) either:

(i) in the case of a *single-priced authorised fund*, a provision that there must be only a single *price* for any *unit* as determined from time to time by reference to a particular *valuation point*; or

(ii) in the case of a *dual-priced authorised fund*, the *authorised fund manager's policy* for determining *prices* for the sale and redemption of *units* by reference to a particular *valuation point* and an explanation of how those *prices* may differ;

(b) ...

(iii) where relevant, how the *price* of *units* of each *class* will be determined for *dealing* purposes; ~~and~~

...

(v) where relevant in the case of a *dual-priced authorised fund*, the *authorised fund manager's policy* in relation to *large deals*; and

...

Dilution

18 In the case of a *single-priced authorised fund*, ~~the~~ details of what ...

...

Guidance on contents of the prospectus

4.2.6 G ...

(4) In relation to *COLL 4.2.5R (16)(a)*, where the *prospectus* includes provisions for both a *single-priced authorised fund* and a *dual-priced authorised fund*, it should state prominently which method of pricing is applicable to which *authorised fund*, and explain how

the differences between them may affect unitholders (for example if a unitholder exchanges units in a single-priced authorised fund for units in a dual-priced authorised fund, or vice versa).

...

Guidance on significant changes

- 4.3.7 G ...
- (2) ...
- (b) ... allocation of payments policy; or
- (c) ...purchased through a group savings plan; or
- (d) a change in the pricing arrangements for units of the scheme so as to cause a single-priced authorised fund to become a dual-priced authorised fund, or vice versa.

...

Valuation

- 5.2.5 R ...
- (3) When valuing the scheme property of a dual-priced authorised fund, the cancellation basis of valuation referred to in COLL 6.3.3R (2) (Valuation) is to be applied.

...

Explanation of this chapter

- 6.1.3 G ...
- (3) ... and to oversee certain functions of ~~the~~ the authorised fund manager ...

...

Application

- 6.2.1 R This section applies to an *authorised fund manager*, a *depository*, an *ICVC* and any other *directors* of an *ICVC*.

...

Initial offers

- 6.2.3 R ...
- (3) The *authorised fund manager* must, ... pay the *depository* ~~the~~ initial price in respect of any unit it has agreed to sell during the period of the initial offer;

- (a) in the case of a *single-priced authorised fund*, the *initial price* of that *unit*; or
- (b) in the case of a *dual-priced authorised fund*, the *initial price* of that *unit* less, where relevant, an amount not exceeding the amount of any *preliminary charge* stated in the *prospectus*.

...

...

Controls over the issue and cancellation of units

6.2.8 R ...

(2) ...

- (a) for an *AUT*, when giving instructions to the ~~*depository trustee*~~ for the *issue* or *cancellation* of *units*; or

...

do, or omit to do, anything ~~which~~ that would, or might, confer on ~~himself~~ itself or an *associate* a benefit or advantage at the expense of a *unitholder* or a potential *unitholder*.

...

Controls over the issue and cancellation of units - guidance

6.2.9 G ...

- (3) ... the *price* of the *units* should be calculated at the ~~valuation point~~ valuation point before or after the instruction ...

...

Box management errors guidance

6.2.12 G ...

Correction of box management errors

...

2 Controls by depositaries

- (1) ... should take reasonable care to ensure that a ~~scheme~~ scheme is managed in accordance with ...

...

Payments for units issued

6.2.13 R (1) The *authorised fund manager* must, by the close of business on the fourth *business day* following the *issue* of any *units*, arrange for

payment to the *trustee* or the *ICVC* of :

- (a) in the case of a *single-priced authorised fund*, the ~~value price~~ price of the *units issued* and any payments required under *COLL* 6.3.7R (SDRT provision) and *COLL* 6.3.8R (Dilution) ; or
- (b) in the case of a *dual-priced authorised fund*, the *issue price* of the *units* and any payment required under *COLL* 6.3.7R.

to the *trustee* or the *ICVC*.

...

Payment for cancelled units

- 6.2.14 R (1) On *cancelling units* the *authorised fund manager* must, before the expiry of ... , require the *depository* to pay:
- (a) in the case of a *single-priced authorised fund*, the *price* of the *units* (less any deductions required under *COLL* 6.3.7R and *COLL* 6.3.8R); or
 - (b) in the case of a *dual-priced authorised fund*, the *cancellation price* of the *units* (less any deduction required under *COLL* 6.3.7R);

to the *authorised fund manager*, or ...

...

In specie issue and cancellation

- 6.2.15 R The *depository* may take into or pay out of *scheme property* assets other than ~~*cash*~~ *cash* as payment for the *issue* or *cancellation* of ~~*units*~~ *units* but only if:

...

Sale and redemption

- 6.2.16 R ...
- (2) ...
- (b) the ~~*issue*~~ *issue* of ~~*units*~~ *units* is prevented under *COLL* 6.2.18R (Limited issue).
- ...
- (6) ... for the purposes of ~~*buying or selling*~~ *dealing in units* if later ...
- (7) ... must *sell* or *redeem units* at a ~~*price*~~ *price* determined no later than ...
- (8) ~~The *authorised fund manager* must not *sell a unit* for more than the *price* of a *unit* of the relevant *class* at the relevant *valuation point*, to which may be added any *preliminary charge* permitted and any~~

payment required under ~~COLL 6.3.7R~~ and ~~COLL 6.3.8R~~. [deleted]

(9) The ~~authorised fund manager~~ must not redeem a *unit* for less than the ~~price of a unit of the relevant class at the relevant valuation point, less any redemption charge permitted and any deduction under COLL 6.3.7R and COLL 6.3.8R~~. [deleted]

(10) Paragraphs (4), (5) and ~~(9)~~ COLL 6.3.5AR (2) (Sale and redemption prices for single-priced authorised funds) do not apply where the *authorised fund manager* is buying ~~units~~ units as *principal* ...

Sale and redemption: guidance

6.2.17 G (1) ... after which it will not accept instructions to *sell* or *redeem* ~~units~~ units at that *valuation point*. ...

...

Limited issue

6.2.18 R ...

(2) ... for the further *issue* of *units* unless, at the time of the ~~issue~~ issue, he it is satisfied on reasonable grounds ...

...

Limited redemption

6.2.19 R (1) .. and the *prospectus* of a *non-UCITS retail fund scheme* that invests substantially in ~~approved immovables~~ immovables or whose investment objective ...

...

Deferred redemption

6.2.21 R ...

(2) ...

(a) the consistent treatment of all *unitholders* who have sought to ~~redeem~~ redeem *units* at any *valuation point* at which ~~redemptions~~ redemptions are deferred; and

...

...

Purpose

6.3.2 G ...

(2) ... This section protects *clients* by:

- (a) setting out ~~rules and guidance~~ guidance to ensure the prices of units in ~~an~~ both a single-priced authorised fund and a dual-priced authorised fund ~~is~~ are calculated fairly and regularly;
 - (b) allowing for... scheme property caused by:
...
 - (c) making appropriate provision to ensure clients are treated fairly where units are being ~~dealt with~~ dealt in at a known (~~historie~~ historic) price; and
 - (d) ensuring that ~~the prices~~ is are made public in an appropriate manner.
- (3) ... instead of the base currency of the umbrella. Consequently different methods of pricing units may be applied by an authorised fund manager to different sub-funds of an umbrella.
- (4) The authorised fund manager must follow the same method of pricing for each class of units in an authorised fund, or in a sub-fund of an umbrella.

Valuation

- 6.3.3 R (1) To determine the price of units the authorised fund manager must carry out a fair and accurate valuation of all the scheme property in accordance with the instrument constituting the scheme and the prospectus.
- (2) For a dual-priced authorised fund, each valuation of the scheme property must consist of two parts, carried out on an issue basis and a cancellation basis respectively.

Valuation points

- 6.3.4 R ...
- (8) The authorised fund manager may determine to have an additional valuation point for an authorised fund as a result of market movement under COLL 6.3.9 (Forward and historic pricing) or otherwise, in which case ~~he~~ it must inform the depository.

Price of a unit

- 6.3.5 R (1) An authorised fund manager must ensure that the ~~The~~ price of a unit of any class ~~must be~~ is calculated :
- (a) by reference to the net value of the scheme property; and
 - (b) ~~must be calculated~~ in accordance with the provisions of both the instrument constituting the scheme and the prospectus.
- ...

- (3) For each class of units in a single-priced authorised fund, a single price must be calculated at which units are to be issued and cancelled.
- (4) For each class of units in a dual-priced authorised fund, an issue price and a cancellation price must be calculated by reference to the respective parts of the valuation carried out under COLL 6.3.3R (2).

Sale and redemption prices for single-priced authorised funds

6.3.5A R The authorised fund manager of a single-priced authorised fund must not:

- (1) sell a unit for more than the price of a unit of the relevant class at the relevant valuation point, to which may be added any preliminary charge permitted and any payments required under COLL 6.3.7R and COLL 6.3.8R; or
- (2) redeem a unit for less than the price of a unit of the relevant class at the relevant valuation point, less any redemption charge permitted and any deductions under COLL 6.3.7R and COLL 6.3.8R.

Sale and redemption price parameters for dual-priced authorised funds

6.3.5B R (1) The authorised fund manager of a dual-priced authorised fund must not:

- (a) sell a unit for more than the maximum sale price of a unit of the relevant class at the relevant valuation point, to which may be added any payment required under COLL 6.3.7R; or
 - (b) redeem a unit for less than the cancellation price of a unit of the relevant class at the relevant valuation point, less any redemption charge permitted and any deduction under COLL 6.3.7R.
- (2) The maximum sale price of units under (1)(a) is the total of:
- (a) the issue price; and
 - (b) the current preliminary charge.
- (3) The sale price of units under (1)(a) must not be less than the relevant redemption price under (1)(b).
- (4) The redemption price under (1)(b) must not exceed the relevant issue price of the relevant units.
- (5) Subject to COLL 6.7.9R (Charges for the exchange of units in an umbrella), in the case of an umbrella:
- (a) the maximum price at which units in one sub-fund that is a dual-priced authorised fund may be acquired in exchange for units in another sub-fund must not exceed the relevant maximum sale price (less any preliminary charge) of the new units; and

- (b) the minimum price at which the old units in a sub-fund that is a dual-priced authorised fund may be taken in exchange must not be less than the equivalent cancellation price.

6.3.5C G The prospectus may make provision for large deals to be carried out at a higher sale price or a lower redemption price than those published, provided they do not exceed the relevant maximum and minimum parameters.

Valuation and pricing guidance

6.3.6 G Table: This table belongs to *COLL 6.3.2G (2)(a)* and *COLL 6.3.3R (Valuation)*

...

1 The valuation of scheme property

...

- (2) ~~An investment for which different prices are quoted according to whether it is being bought or sold should be valued at its mid-market price. The instrument constituting the scheme should set out the valuation method that will apply where a single price for buying and selling a security is quoted.~~

For some or all of the investments comprising the scheme property, different prices may be quoted according to whether they are being bought (offer prices) or sold (bid prices). The valuation of a single-priced authorised fund should reflect the mid-market value of such investments. In the case of a dual-priced authorised fund, the issue basis of the valuation will be carried out by reference to the offer prices of investments and the cancellation basis by reference to the bid prices of those same investments. The prospectus should explain how investments will be valued for which a single price is quoted for both buying and selling.

...

- (5) (a) no reliable price exists for a ~~security~~ security at a valuation point; or

...

(7) ...

- (c) the basis and reliability of the alternative ~~price~~ price used; and

...

...

2 The pricing controls of the authorised fund manager

...

(2) ...

(b) ~~investment~~ investment transactions are accurately and promptly reflected in valuations;

(c) the components of the valuation (including stock, cash and ~~units in issue~~ issue) are regularly reconciled to their source or prime records and any reconciling items resolved promptly and debtors reviewed for recoverability;

...

(f) dividends are accounted for as soon as ~~stocks~~ securities are quoted ex-dividend (unless it is prudent to account for them on receipt):

(g) fixed interest dividends, interest and expenses are accrued at each ~~valuation point~~ valuation point;

...

(3) ... and may choose a longer interval, if appropriate, given the level of activity on the ~~fund~~ authorised fund or the materiality of any effect on the *price*.

...

(6) Where the ~~pricing~~ pricing function is delegated to a third party, ■ COLL 6.6.15 R (1) (Committees and delegation) will apply.

...

3 The depositary's review of the authorised fund manager's systems and controls

(1) ...These checks also apply where an *authorised fund manager* has delegated all or some of its ~~pricing~~ pricing functions to a third party.

...

(5) ...verifying, on a sample basis, if necessary, the assets, liabilities, accruals, ~~units in issue~~ issue, *securities* prices ...

...

4 The recording and reporting of instances of incorrect pricing

...

(3) A *depositary* should also report to the *FSA* immediately any instance of incorrect ~~pricing~~ pricing where the error is 0.5% or more of the *price* of a

unit, ...

- (4) In accordance with ~~SUP~~ SUP 16.6.8R, a *depository* should also make a return to the *FSA* on a quarterly basis which summarises the number of instances of incorrect ~~pricing~~ pricing during a particular period.

5 The rectification of pricing breaches

- (1) ... and the *scheme* itself, for instances of incorrect ~~pricing~~ pricing, except if it appears to the *depository* that the breach is of minimal significance.

- (2) A *depository* may consider that the instance of incorrect ~~pricing~~ pricing is of minimal significance if:

...

- (b) the error in ~~pricing~~ pricing of a *unit* is less than 0.5% of the correct *price*.

- (3) In determining (2), if the instance of incorrect ~~pricing~~ pricing is due to one or more factors or exists over a period of time, each *price* should be considered separately.

...

- (5) The *depository* should satisfy itself that any payments required following an instance of incorrect ~~pricing~~ pricing are accurately and promptly calculated and paid.

...

Forward and historic pricing

6.3.9 R ...

- (2) If *forward prices* only are to be used, all ~~deals~~ deals must be at a *forward price*.

- (3) ...

- (b) where the regular *valuation points* are more than one *business day* apart;

- (c) If the request to ~~deal~~ deal reaches the *authorised fund manager* through the post or by any similar form of non-interactive communication;

...

- (6) All *sub-funds* of a *scheme* which is ~~an~~ an *umbrella* must adopt the same pricing basis, ...

...

Publication of prices

6.3.11 R Where the *authorised fund manager* is prepared to ~~deal~~ deal in *units*, or is willing to *issue* or ~~cancel~~ cancel *units*,—under *COLL* 6.2.7, it must make the ~~dealing~~ dealing *prices* public in an appropriate manner.

Manner of price publication

- 6.3.12 G (1) ...
- (c) publication is consistent with the manner and frequency at which the *units* are ~~sold~~ dealt in;
- ...

...

Valuation, pricing and dealing

- 8.5.9 R ...
- (8) ~~Immediately after completing a valuation under (6), the *authorised fund manager* must notify the *depository* of:~~
- (a) ~~the price in the relevant currency of each type of *unit* as determined for the relevant *valuation point*; and~~
- (b) ~~the basis of any adjustment applied in relation to that *valuation point*. [deleted]~~
- (9) The *authorised fund manager* must publish in an appropriate manner the ~~price~~ price of any type of *unit* based on the ~~notification to the *depository* in (8)(a)~~ valuation carried out in accordance with (6).

...