



Share Class Conversions

Statement of recommended practice

December 20



About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry**. We have **over 200-member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives that influence policymakers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings & Investment**. This reflects TISA's commitment to open standards and independent governance.



1. Introduction

TISA members and suppliers to the industry considered the issues arising from the ban on cash rebates on investments in funds, and the consequential increase in the number of share classes offered by fund managers and platforms.

The industry established a project (ExCo), which held a number of meetings to discuss the issues arising throughout 2013. The ExCo agreed a final position on recommended industry practice in February 2014. The outcome is this Statement of Practice.

Following the Market Study on Investment Platforms¹, the FCA consulted on a range of remedies², following which the FCA issued a Policy Statement with the aim of simplifying and speeding up transfers of funds and ISAs³.

TISA members, other industry firms, including suppliers to the industry, and working with TeX, the industry body set up to promote and establish governance around the electronic transfer and re-registration of funds and ISAs, worked to update the Statement of Practice.

This updated Statement of Practice is intended to guide the industry – fund managers and platforms and their agents, such as Third-Party Administrators (TPAs), in particular – on the processes to be followed when considering share class conversions.

The changes relating to conversions from preferred share classes (see Section 5.2 below) are to be in effect from 1 February 2021, the implementation date of PS19/29.

Three main types of conversion have been considered, namely:

- Bulk Conversions, where either the fund manager, platform, or intermediary initiates conversions for clients on a bulk basis, rather than individually,
- Customer initiated conversions, either directly or through their agent, such as an intermediary,
- Conversions upon a re-registration or transfer between acquiring and ceding parties, typically platforms.

2. Standard Rules

Conversions are not switches.

¹ <https://www.fca.org.uk/publication/market-studies/ms17-1-3.pdf>

² <https://www.fca.org.uk/publications/policy-statements/ps19-29-making-transfers-simpler-feedback-cp19-12-and-final-rules>

³ <https://www.fca.org.uk/publication/policy/ps19-29.pdf>



Conversions should not be effected by way of switches.

This is because a switch may be a taxable event, will expose a customer to market movements and, potentially, to bid offer spreads as well as failing to preserve the customer's grouping. This is material, as a switch from a group 1 holding in an interest distributing fund, such as a corporate bond fund, held within an ISA or SIPP, will have adverse tax consequences for the customer.

Conversions must be between classes in the same fund, and with the same underlying property, for example inc to inc or acc to acc would apply in this scenario. Thus, conversions between hedged and unhedged classes may not be treated for tax purposes as a conversion, but as a potentially taxable switch.

To the extent that it is practicable, conversions should also preserve groupings. Where this is not practicable, for example, because of differential distribution dates or where different policies for charging of expenses between capital and income applies to different share classes within the same fund, then the policy on conversions, which may include restrictions on when conversions may take place, should be clearly and prominently explained in the scheme documentation.

Conversions should take place on customer request, except where scheme documentation provides otherwise, such as where there are minimum holding requirements, or where there are restrictions imposed by law or regulation on those permitted to hold a particular class.

Conversions should also take place promptly, which is generally, except where conversions take place as part of a re-registration between parties, at the next valuation point. It should be noted that no customer detriment will arise, as the customers entitlement to the underlying property of the scheme will not change, apart from the difference in annual management charge.

Where conversions are instigated by the Fund Manager, Platforms should be informed/included.

In all cases conversions, particularly where associated with re-registrations, should take place promptly, and all parties should take steps to notify each other and effect the re-registration, transfer or conversion in an appropriate and efficient manner.

3. Bulk Conversions

3.1 Background

Firms may wish to reduce the overhead associated with multiple share classes by converting customers from, say, a retail share class (where the annual management charge includes amounts used to pay platform charges and trail commission) to a platform class. This may be a platform or an intermediary acting for a number of customers.



These recommendations only consider conversions from retail (bundled) share classes to platform (unbundled) share classes. Bulk conversions from one unbundled class to another do not present issues other than logistic.

The principles to be observed are the same, regardless of the initiating party.

3.2 Recommended Practice

It is good practice for the platform to discuss a bulk conversion beforehand with the fund manager (or their agent if the fund manager uses a Third-Party Administrator). This will identify issues in advance to ensure that the process, which by definition will involve simultaneous transactions with many customers, will run smoothly without inconveniencing customers.

Firms are expected to analyse their customers' combined holdings on a granular basis to determine:

- The impact on customers of the conversion(s) to the target share class(es) and,
- Whether customers will suffer any detriment from conversion, and
- Whether any detriment is material to affected customers

Firms will consider the package of costs in moving from bundled classes to unbundled classes, including the impact of platform and adviser fees (if any).

Firms will give customers adequate notice of proposals, which will be at least 30 days, and will clearly set out the customer's options, including alternative funds and encashment, if the customer does not wish to move to the proposed target class(es).

4. Customer Initiated Conversions

Customers have the right, subject to any provisions of the scheme documentation (for example, holding size, or restrictions on type of holder), to convert from one class to another. Generally, conversions will be like for like. That is, accumulation to accumulation, group 1 to group 1, gross to gross, etc. Naturally, conversions can only be into classes available from the platform.

5. Conversions with re-registration

5.1 Standard Practice

Re-registrations and conversions are separate transactions.

Industry practice is for re-registration to take place first, and for the acquiring party to carry out any conversions required by the customer.



Conversions with re-registration will be subject to the standard time for effecting a re-registration, which is (for those parties that are members of TISA Exchange, or TeX) 6 working days, together with the standard time for a conversion, which should be at the next valuation point.

As set out above, conversions are subject to any restrictions set out in the scheme documentation.

5.2 Special Provisions

Special provisions apply where the share class to be re-registered is not available on the acquiring party's platform. This may be because the ceding platform has negotiated a preferred arrangement with the fund manager, or because the acquiring platform does not wish to support the particular share class concerned.

Platforms or other intermediate unitholders may not support all classes of each fund carried. Therefore, conversions can only be effected in respect of classes carried by the platform. Similarly, fund managers may place restrictions, by size or value or type of holder, so conversion options may be limited. Where acquiring parties are not permitted to hold a particular class, they should request a transfer of a class that they are permitted to hold. In these circumstances the ceding party will carry out the conversion prior to transfer or re-registration.

In these cases, by agreement between the ceding and acquiring parties, the ceding party will undertake to convert into a class of share, typically, the common or pivot share class, that is supported by the acquiring platform.

This will be facilitated by reference to the Register of Common Share Classes, hosted by the Investment Association (IA).

This conversion depends on co-operation between the ceding and acquiring parties and the agreed standard is that conversion to the agreed class will take place at the next but one valuation point, following which the usual procedures on re-registration apply.

There will be cases where the acquiring party also has a preferred share class, not available to the ceding party. In these cases, there will need to be a further conversion from the class re-registered to the desired class.

Terms and Conditions

In order to avoid unnecessary delays, where the conversion and re-registration process may necessitate a conversion to a higher charging share class (as a preferred share class will typically have a lower charge than a common class) it is recommended that the Terms and Conditions of the Acquiring Party should include terms authorising the acquiring party to instruct the ceding party to carry out the necessary steps



to effect a re-registration in specie, even where this involves conversion to a higher charging share class. Otherwise, the ceding party would have to check with the customer, with cost and delay implications.

The Appendix to this Statement of Practice sets out model terms for such Terms and Conditions, which firms may use for their firm specific Terms and Conditions.

In these cases, customers, or their advisers on their behalf, should check with the acquiring platform before re-registration on whether multiple conversions may be required.

Note that industry best practice for all conversions and re-registrations is to adhere to the regulation timeframes. However, TeX members are contractually required to carry out conversions within 1 business day of the next available VP, following receipt of the conversion instruction. This is set out within the TeX SLA⁴.

⁴ <https://tisaexchange.co.uk/wp-content/uploads/2020/07/TISAExchangeServiceLevelAgreementv4.3-February-2020.pdf>

TISA - Draft in-specie transfer wording

General Note:

This wording is in a generic template form for potential inclusion in customer investment platform terms and conditions. It may need amendment to align with the provisions and style of the customer terms and conditions a platform firm has in place (or proposes to have in place) with its customers, including any relevant definitions. As the wording is based around the FCA's proposed rules under PS19/29, it allows for transfers being initiated by either the transferring platform or the receiving platform to cover all scenarios, although in practice it may tend to be the receiving platform initiating a transfer. Where possible, jargon (e.g. "in specie") has been replaced with terminology that is more plain English.

Template Wording:

Part 1: Definitions to include in the terms and conditions glossary or definitions section, to the extent not already covered by equivalent definitions in the platform's terms and conditions:

"Available Fund" means, in relation to a Transfer, a fund in which Units are available for investment via both the Transferring Platform and the Receiving Platform;

"Discounted Unit Class" means a Unit class in an Available Fund for which the Fund Manager is paid a lower level of charges than would otherwise apply to an investment in Units in the Available Fund;

"Fund Manager" is the operator of an Available Fund;

"Investments" means investments into an Available Fund held on an investment platform;

"Receiving Platform" means the investment platform that receives Investments from a Transferring Platform on a Transfer;

"Transfer" means a transfer of Investments from a Transferring Platform to a Receiving Platform, in accordance with instructions given by You or on Your behalf;

"Transferring Platform" means the investment platform that transfers Investments to a Receiving Platform on a Transfer;

"Unit" means a unit representing a right to or interest in Investments;

"Unit Transfer" means a Transfer of any Investments which is carried out through the re-registration of the ownership of the Units themselves onto the Receiving Platform, without the Fund Manager selling the existing Units to transfer cash to the Receiving Platform (otherwise known as an "in-specie transfer");

"We, Us Our" means [*name of platform service provider*];

"You, Your" means [*client/financial adviser acting on client's behalf*].

1. If You ask Us to Transfer any of Your Investments to [Our platform]¹ from a Transferring Platform or from [Our platform] to a Receiving Platform, You may choose for the Transfer to be carried out by way of a Unit Transfer, provided there are no circumstances outside of Our control, or the control of the Transferring Platform or Receiving Platform (as the case may be), which would prevent a Unit Transfer.²

¹ Each platform may refer to its own platform differently in its terms and conditions and so this phrase is included as a placeholder.

² This wording reflects the regulatory requirement to be in COBS 6.1H.3R(1). If a platform makes this option clearly available to customers otherwise, this right may not be required for the terms and conditions. Please note the requirement to provide sufficient information in good time to enable the client to make an informed decision in COBS 6.1H.3R(3).

2. Where We receive an instruction from You, or given on Your behalf, to carry out a Unit Transfer of any Investments, We may treat that instruction as expressly providing Us with Your authority:
 - 2.1 if We are the Transferring Platform, to request the Fund Manager of each such Investment (to the extent We are entitled to do so) to carry out any conversion of the relevant Units to a Unit class that is available on the Receiving Platform, and to take any other reasonable steps to bring about that conversion; or
 - 2.2 if We are the Receiving Platform, to instruct the Transferring Platform to request the Fund Manager of each such Investment (to the extent the Transferring Platform is entitled to do so) to carry out any conversion of the relevant Units to a Unit class that is available on [Our platform], and to take any other reasonable steps to bring about that conversion,

in each case, as required to enable a Unit Transfer of any such Investments.
3. Where We receive an instruction from You, or given on Your behalf, to convert Units in Your Investments into Units of a Discounted Unit Class as part of a Unit Transfer of any Investments, We are entitled to treat that instruction as expressly providing Us with Your authority:³
 - 3.1 if We are the Transferring Platform, to instruct the Receiving Platform to request the Fund Manager of each such Investment (to the extent the Receiving Platform is entitled to do so) to carry out the conversion of the relevant Units to that Discounted Unit Class, and to take any other reasonable steps to bring about that conversion; or
 - 3.2 if We are the Receiving Platform, to request the Fund Manager of each such Investment (to the extent We are entitled to do so) to carry out the conversion of the relevant Units to that Discounted Unit Class, and to take any other reasonable steps to bring about that conversion.
4. An instruction will be treated as given on Your behalf where it is provided:⁴
 - 4.1 by [Your financial adviser];
 - 4.2 if We are the Transferring Platform, by the Receiving Platform;
 - 4.3 if We are the Receiving Platform, by the Transferring Platform,

unless, in any of these cases, We reasonably believe that person or entity does not have authority to provide the instruction on Your behalf.

Process Notes

This wording is drafted so that it can be used by an initiating party, irrespective of whether it is the transferring or receiving platform. This reflects the broad approach taken by the FCA in PS19/29 and the final rules in that statement.

It has been designed to complement an application/instruction form that will be completed by the client, or their financial adviser, selecting whether they wish to make an in-specie transfer and, if so, whether they wish for their units to be converted into a discounted unit class. Ideally these forms could also include an instruction from the client to convert their units as required to

³ This wording deals with the rights to conversion to a discounted class on the Receiving Platform according to COBS 6.1H.3(2)R and assuming that this does not occur automatically on the Receiving Platform. **NB:** If a platform wishes to convert to a discounted unit class automatically, wording should be included in the terms and conditions to provide customer authority to do this.

⁴ This wording is drafted on the basis of the FCA rules and similar wording applying to each platform involved in the Transfer. It will need to be considered in the light of actual practice of the platform.

enable the in-specie transfer, but the wording proposed allows for circumstances where this is not the case.

Platforms are obliged to provide clients with appropriate information on the transfer options and processes, which it is anticipated will be built into platforms' compliance processes and so the wording does not seek to capture this obligation.