

Michael Collins
Financial Conduct Authority
12 Endeavour Square
London
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By email: cp24-18@fca.org.uk

11 October 2024

Dear Michael

Re: CP24/18 Widening LTAF access – amending NURS second scheme rules to facilitate LTAF investment

The BVCA is the industry body and public policy advocate for the private equity and venture capital (private capital) industry in the UK. With a membership of over 600 firms, we represent the vast majority of all UK-based private capital firms, as well as their professional advisers and investors. In 2022, £27.5bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. There are over 12,000 UK companies backed by private capital which currently employ over 2.2 million people in the UK. Over 55% of the businesses backed are outside of London and 90% of the businesses receiving investment are small and medium-sized enterprises (SMEs).

We welcome the opportunity to provide feedback on the FCA's consultation proposal to widen Long-Term Asset Fund (LTAF) access by amending the Non-UCITS Retail Scheme (NURS) second scheme rules to facilitate LTAF investment. We support the FCA's stated objective of removing barriers that currently prevent NURS from investing in LTAFs.

We supported the introduction of the LTAF to enable more investors with long-term investment horizons and who understand the risks to invest in long-term, less liquid assets like private capital. We worked with the Productive Finance Working Group to develop its September 2021 [roadmap for increasing productive finance investment](#), which noted the likely importance of the LTAF in widening investor access to less liquid assets. The LTAF is of interest to certain of our members as a vehicle for raising capital for investment in private capital, particularly from Defined Contribution (DC) pension schemes, advised investors and wealth management clients, and as a vehicle that may itself invest in private capital funds.

Last year, the BVCA convened a [Pension & Private Capital Expert Panel](#) in partnership with the ABI and the PLSA. The panel is made up of senior representatives of both the DC pensions and private capital industries and is tasked with identifying and developing a shared understanding of the barriers for DC pension schemes that wish to invest in private capital in the UK.

In an [interim report](#) launched at the BVCA's Pension Summit on 11 September, the Panel identified LTAFs as an important part of the solution. The report welcomed this consultation and said that the proposed changes would:

- Bolster the commercial rationale for firms to establish LTAFs by increasing the addressable market of potential investors beyond DC (i.e. increase the opportunity).
- Broaden the ability of DC investors in NURS to benefit directly from greater private capital exposure (where DC capital already invests through NURS, they would gain exposure through underlying LTAFs), subject to proper assessment of savers' best interests.

- Broaden the ability of DC investors in LTAFs to benefit from the pooling of DC default capital in the same LTAF alongside capital from NURS funds, which could incentivise more managers to establish LTAFs (i.e. increase competition/choice for DC investors); promote economies of scale; and help diversify risk (because the DC default capital would be exposed to a larger number of investments in smaller proportions).

Further changes needed to support the initiative: permitted links rules update

As referenced in paragraph 3.5 of the consultation paper, the BVCA would also like to see substantive updates to the permitted links rules to support this policy initiative. We think there are changes that can be made that would remove barriers and help to facilitate DC investment into private capital funds via life insurance platforms. Under the permitted links rules, UK authorised Qualified Investor Schemes (QIS) and EEA equivalent funds can qualify as conditional permitted links, providing they invest in other conditional permitted links. Therefore, to make these types of common private capital fund available on life insurance platforms, the insurer must undertake due diligence on the fund and its investment portfolio to ascertain if the underlying investments qualify as conditional permitted links. This is a burdensome process and can create uncertainty, requiring the insurer to pass judgement on some matters which can be expensive, which deters insurers from seeking to offer products other than LTAFs, and ultimately limits UK DC savers' access to the diversification and historically strong returns offered to overseas pension schemes by private capital funds. To improve and broaden investment options for DC default schemes that use life platforms, we recommend the FCA should consider:

- **Excluding DC pension scheme default funds from the permitted links rules:** It is our view that this would be appropriate because the default funds of DC schemes are professionally managed by trustees and have a legal obligation to seek professional investment advice – so, they are not retail funds or managed by retail investors. This would help to level the playing field with DB schemes, which are not subject to these restrictions and could result in a wider range of private capital investment options being made available to DC schemes via platforms; or
- **Including more private capital fund structures as 'conditional permitted links':** As an alternative, the FCA could consider permitting investment in commonly used private capital investment vehicles in the same way as the rules now permit investment in LTAFs. The current rules include LTAFs as a conditional permitted link. This means they are not subject to a cap on illiquid assets and creates certainty for insurers and pension scheme trustees investing in LTAFs. Private capital firms have recently launched a range of semi-liquid, regulated vehicles that could be included as conditional permitted links. The criteria for inclusion would be for the FCA to determine, but one suggestion as a starting point would be to consider vehicles that are subject to product regulation by a national competent authority in another G20 jurisdiction.

We recognise that the permitted links rules are complex, and any changes would require careful consideration. We welcome confirmation that the FCA will continue to consider whether other changes might be appropriate, and we would be very happy to discuss any of the above recommendations in more detail.

Below we have responded to the targeted amendments proposed to the NURS second scheme rules in CP24/18:

Question 3.1: Do you agree with our proposals to exempt LTAFs from COLL 5.6.10R(3) to allow investment access for NURS? If not, why not?

Yes. We welcome the FCA's proposal to amend COLL 5.6.10R(3) so that it does not apply when the second scheme of a NURS is an LTAF.

We agree with the FCA's analysis that COLL 5.6.10R(3) prevents NURS from investing in LTAFs by virtue of the restriction on the second scheme from investing more than 15% of its scheme property in collective investment schemes (CIS). For the reasons set out in paragraphs 3.7 and 3.8 of CP24/18, we agree there is a limited risk of circularity of investment and that the rule designed to address this risk (COLL 5.6.10R(3)) is disproportionate for second schemes that are LTAFs.

The proposed change will help investors in NURS to benefit from diversification and provide limited access to private capital assets. These assets have historically provided diversification and higher returns to various UK and international institutional investors, including overseas pension schemes. As well as delivering positive, long-term, investment outcomes for investors, UK managed private capital funds play a vital role in the growth of the UK economy, investing in UK companies that support over 2.2 million jobs.

Question 3.2: Are there any other changes we should make to facilitate investment by NURSs in LTAFs without unduly increasing risks for investors?

We recommend that the 20% limit for investment in LTAFs is kept under review. We consider that there should be scope to increase this percentage in future.

Question 3.3: Do you agree with our proposed provisions at COLL 5.6.10DR and 5.6.10EG setting expectations for NURS managers, when they invest in LTAFs, to ensure that they can meet their obligations to investors in the NURS to enable redemptions? If not, why not?

Yes. We agree that the proposed rules and supporting Handbook guidance is clear.

Question 3.4: Do you agree with our proposed minor amendments to COLL 5.7.7R(3) and COLL 5.7.7AG(2) for NURS FAIF managers in line with our proposed provisions for NURS managers at COLL 5.6.10DR and 5.6.10EG?

Yes. We agree that the proposed rules and supporting Handbook guidance is clear.

Please do not hesitate to get in touch if you have any questions or if you would like to discuss any of the above in more detail (please contact Tom Taylor ttaylor@bvca.co.uk / Nick Chipperfield nchipperfield@bvca.co.uk).

Yours sincerely



Tim Lewis

Chair, BVCA Regulatory Committee