## Share Class Conversions – Statement of recommended practice

## 15th May 2014

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### 1. Introduction

TISA members and suppliers to the industry have been considering the issues arising from the ban on cash rebates on investments in funds, and the likely 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.

This 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.

Three main types of conversion were 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.

Conversions should not be effected by way of switches.

This is because a switch 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. 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 holdings 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.

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 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 a timely 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 reregistration, 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.

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

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.