



BCPP Joint Committee

Date of Meeting: 20th October 2017

Report Title: Update on Financial Conduct Authority (FCA) Permissions Submission

Report Sponsor: Project Implementation Lead – Fiona Miller

1.0 Executive Summary:

- 1.1 BCPP Ltd will seek Financial Conduct Approval (FCA) regulatory advice approvals covering several permission types to operate as necessary to provide the required services to its client funds. The regulatory approvals that BCPP Ltd will be seeking have been developed over the last several months as the BCPP Ltd Target Operating Model and Asset Template offering have been developed and agreed. Substantial legal advice (Eversheds) and regulatory / operational advice (Alpha FMC) have been received in the design and completion of these processes and preparation of required documentation and policies.
- 1.2 From the submission date the FCA have a maximum of six months to complete their processes and therefore providing the submission is lodged with the FCA mid-November this should enable the target go-live date of June 2018 to be met. If there are any issues with the application then the go-live date will be compromised.
- 1.3 This paper seeks to advise Members of the current status of progress towards submission of the documentation, the associated risks, and to assure Members that, while the deadlines are stretching, we currently remain on track to meet the required timelines for approval to enable go-live in June 2018.

2.0 Recommendation:

- 2.1 That Members note the progress to date and the proposed timeline for FCA regulatory approvals submission.
 - 2.2 That Members approve the submission to the FCA of the application with a draft regulatory business plan as detailed.
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3.0 Background:

- 3.1 The regulatory compliance and operating structure for BCPP Ltd was outlined in the BCPP Proposal to DCLG in July 2016. This was then agreed by all the partner Funds in their approvals procedure through their respective Authorities throughout the first quarter of 2017.
 - 3.2 Work has been on going since this date with our appointed advisors to define the detailed target operating model and asset offering and, therefore, the exact permissions to operate as required to meet the needs of our partner Funds / clients. Members have been kept apprised through regular updates on the design and development of the target operating model and initial asset template offering with quarterly updates to the Member Steering Group and then the Joint Committee.
 - 3.3 This paper seeks to consolidate that work into the specifics of the FCA approvals process, the permissions being sought from the FCA, and the timeline for submissions and approvals.
 - 3.4 The FCA will, throughout the approval process, be seeking to gain assurance that the resources, policies, operational controls, systems and business plans are sufficient to meet the scale of operation being proposed. This ranges from assurance that the controlled function holders are sufficiently experienced and knowledgeable to the systems being complete and robust for the level of operation being proposed.
 - 3.5 Although BCPP Ltd is large in scale the target operating model has been built on the principles of simplicity and systems standardisation. From initial conversations with the FCA they support this approach especially due to the fact that we are a start up business at large scale with a challenging timetable in which we intend to transition assets.
 - 3.6 The full project plan for the FCA submission and permissions that have been identified as being required are shown at appendix 1 with the proposed submission timetable shown at appendix 2.
 - 3.7 The main risk to the current timeline are:-
 - 3.6.1 Further delays to the recruitment of the controlled function post holders. The FCA will need assurance that if the individuals cannot be named on the submission then a clear recruitment process is underway with role profiles etc. agreed. Individuals will need to be identified before final approval can be granted.
 - 3.6.2 No delays in the on going procurement process to appoint a depository/third party administrator (TPA); ICT investment platform
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and Corporate ICT platform provider. Additionally the appointed depository will need to agree to be identified and support the FCA submission documentation prior to finalisation of contract negotiations.

3.6.3 That the provisional budget as submitted to the FCA is agreed in substance by the shareholders.

3.8 The mitigations to the above risks:-

3.7.1 Recruitment – the revised recruitment process for the appointment of the remaining controlled function post holders should facilitate meeting the required timeline.

3.7.2 Procurement of Core Systems – all processes are progressing to a robust procurement timetable and no potential delays have as yet been identified.

3.7.3 The initial plan was to bring the draft budget to this meeting for progression to the shareholders for approval prior to submission to the FCA but it has not been possible to meet this timetable. It has therefore been provisionally agreed with the statutory officers that an alternative process be followed that will enable the FCA application to proceed with a draft regulatory business plan / budget that is then reviewed and approved and if the changes are sufficient to warrant it, submit an amended plan to the FCA.

3.7.4 The reasons for reaching the decision to delay presentation of the regulatory business plan and budget to today's meeting are as follows:-

- At the time of writing this paper the three largest expenditure items (excluding pay) e.g. TPA and the two ICT platforms we are not sufficiently progressed in the tender process and, therefore, we only have estimated figures based on our advisors experience of the market. Even a small variation in the TPA contract price will have a large impact on the overall budget. This will be available for a November submission to the FCA.
 - S151's, along with their Fund Officers, need to be given time to review the final proposed BCPP Ltd budgetary requirement and assess the implications on their individual Funds before they can recommend it to the Members / shareholders for approval.
 - Provisional agreement is required to the outline staffing structure before costs such as regulatory training requirements, ICT etc. can be quantified. The draft structure is detailed elsewhere on today's agenda which if approved can be used to drive the quantification of these costs.
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- The CEO needs to have ownership of the regulatory business plan and resultant cost base so that both the BCPP Ltd Board and the Funds as clients can hold her accountable for delivery. As she is not yet in post she has not had time to have effective input or become comfortable with the proposed regulatory business plan / operational model or its resultant cost base.

3.7.5 Risks with Mitigations proposed by this delay:-

- Risk Delays FCA application
- Mitigation FCA application requires a draft high level expenditure budget, cashflow and balance sheet. The FCA are seeking assurance that the resources and cash liquidity required to manage assets at the volume proposed is understood and available. It is proposed that we will have sufficient information by November to submit a draft budget but acknowledge that this will not have been approved by the shareholders. However, the FCA appreciate that budgets as submitted are based on estimation across a whole range of factors. As long as what is submitted is in line with the final budget / resources approved / assets / detailed transition plan it is understood that the FCA will be supportive of such an approach.
- Risk Delays recruitment of essential posts required to ensure implementation proceeds effectively
- Mitigation Budgetary resources have been identified in the agreed implementation budget to enable recruitment for the key personnel to proceed prior to June 2018.

3.7.6 Proposed Revised Timeline For Shareholder Budgetary Approval:-

20th Nov	Project team submit high level draft outline budget as part of FCA application pack.
27th Nov	Budget template with line item expenditure headings reviewed by OOG.
1st Dec	Revised final proposed budget is constructed by implementation team following close of major procurement processes.
11th Dec	Plan reviewed by BCPP Ltd CEO.
12th Dec	OOG meeting for review and to receive inputs and comment.
15th Dec	BCPP Ltd Internal Governance / Board review.
15th Dec	Distributed to S151 & Officers.
9th Jan	Joint Committee papers distributed.

16th Jan Joint Committee.

End Jan Take on board Joint Committee feedback and then distribute via written resolution to Shareholders for approval.

4.0 Conclusion:

- 4.1 The FCA application is progressing to plan other than for the presentation of the business plan and budget to this meeting.
- 4.2 The risks of both progressing or not with the current plan in light of this delay are highlighted in the paper and the recommendation is that we proceed as proposed in paragraph 3.7.6

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Further Information and Background Documents:

Appendix 1: FCA Application Tracking Document

Appendix 2 FCA Project Work Submission Timetable.



FCA Application Tracking Document

Border to Coast Pensions Partnership



October 2017



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1. Introduction

The Border to Coast Pensions Partnership (BCPP) was set up to lead the pooling of investment assets across 12 Local Government Pension Schemes (the 'Clients') from the North to the South of England. This was in response to the Government's intention for pooling LGPS investments, announced in July 2015, to significantly reduce costs while maintaining overall investment performance.

The Border to Coast Pensions Partnership has created the entity which is seeking to become an FCA-authorized alternative investment fund manager (AIFM); BCPP Ltd (the 'Company'). BCPP Ltd will operate a series of risk and return focused investment funds/sub-funds covering a comprehensive list of asset classes for the underlying LGPS pension schemes to invest into based on their own allocation strategy. There will be three groups of these investment funds/sub-funds:

1. 14 internally managed sub-funds held under an Authorised Contractual Scheme (ACS)
2. 15 externally managed sub-funds also held under the Authorised Contractual Scheme (ACS)
3. 7 internally managed Alternative Investment Funds (AIFs) not authorised by the FCA and held separate from the ACS

The legal structures and types of the funds that BCPP Ltd will offer are outlined in the table below:

Asset Class	Legal Structure	Fund Type	Management
Equities	ACS	QIS	Internal
Equities	ACS	QIS	External
Fixed Income	ACS	QIS	Internal
Fixed Income	ACS	QIS	External
Fixed Income	AIF	LP/UUT	Internal
Alternatives	AIF	UUT	Internal
Alternatives	AIF	LP	Internal
Alternatives	ACS	QIS	Internal
Alternatives	ACS	QIS	External

This document outlines the regulated services BCPP Ltd will be providing to its Clients and the resulting permissions required from the FCA to do so.

2. BCPP Ltd Services Provided

In order to deliver the objectives of the LGPS pooling initiative, the services that BCPP Ltd will provide its Clients are;

1. Managing UK Authorised Investment Funds (the ACS) that do not qualify as UCITS,
2. Managing UK Unauthorised Investment Funds, and
3. Activities permitted by article 6(4) of AIFMD (further details are provided in Appendix 8.1)

2.1 Questions Outstanding

There are still outstanding items to be resolved which are:

1. Confirming there are no activities or services being proposed by BCPP outside of AIFMD that fall under MiFID and/or an additional capital requirements regime (e.g. requiring an ICAAP)
2. The number and types of share classes for each fund, and
3. The treatment of uninvested cash held in funds

3. BCPP Ltd Regulatory Permissions

To be allowed to operate and deliver the services outlined above, BCPP Ltd will need the following regulatory permissions from the FCA. These permissions will determine the detail of the application forms submitted to the FCA and the regulatory capital regime that BCPP will fall under:

- a. Full scope AIFM (BCPP is above the threshold for small AIFM threshold)
 - b. FUND 1.4.7 AIFM investment management functions
 - c. FUND 1.4.7 other functions that an AIFM may additionally perform (listed in 7.2)
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- d. FUND 1.4.3R (3) management of portfolios in accordance with mandates given by investors
- e. FUND 1.4.3R (4) investment advice
- f. FUND 1.4.3R (5) safe-keeping and administration (arranging)
- g. FUND 1.4.3R (6) reception and transmission of orders in relation to financial instruments
- h. Article 51ZE establishing, operating and winding up a collective investment scheme

Further detail is included in the Appendix 8.2 below.

4. Approach to Authorisation

The approach to completing and submitting the required FCA application has 3 phases:

4.1 (1) Design

The operating model design decisions from the previous stages of the project will determine the complexity of the application and the permissions required from the FCA.

During the Design phase key aspects of the operating and business model will be confirmed, including; types of services to be offered, capital regime, governance and organisation structure, and ownership and key relationships.

4.2 (2) Iterations

The key activities during the Iterations phase are documenting the details deriving from the outcome of the Design. Stakeholders will be consulted to sign-off the key decisions from the iterative sub-phases:

1. The Regulatory Business Plan
2. Key compliance arrangements including the final governance structure and individuals performing controlled functions
3. Compliance procedures and documented Compliance Monitoring Programme
4. Confirmation of the applicable FCA fee block based on the proposed authorised business
5. Obtaining/producing the necessary financial statements and forecasts

4.3 (3) Submission

This phase will ensure that the application is complete and ready to be submitted to the FCA. This will include signed-off documents, FCA forms and the supporting/supplementary information (required to be ready but not submitted at the time of application).

5. Timeline for FCA Application Activities

Phase	Activity	Dates	Status
Design	Agree services provided by BCPP	02/10 – 03/10	In Progress
	Define regulatory permissions and applicable capital regime	04/10 – 05/10	In Progress
	Gather FCA application documents required	05/10 – 06/10	Completed*
Iterations	Complete application documentation	09/10 – 08/11	In Progress
	Complete actions subject to attestation		
	Complete additional documents that can be requested		
Submission	Document Review and Submission	08/11 – 17/11	Not Started

*The document pack is based on current permissions which are still to be formally signed off but are not expected to change.

6. FCA Documents Required for Application

Document	Description	Owner
Core Details Form	This form is required by the FCA so that they can contact BCPP appropriately during the application and thereafter, as well as ensuring that BCPP meet the threshold conditions (COND 2.2).	BCPP
Supplement for Investment Managers	This form is required to inform the FCA of the nature of the business BCPP intends to carry out so that BCPP is authorised for the correct regulated activities, investment and client types as well as ensuring the adequacy of BCPP's resources.	Alpha
Detailed IT Controls Form	This form is required by the FCA to demonstrate that BCPP's IT systems and controls meet the standards and requirements set out in SYSC (particularly SYSC 1) of the FCA handbook.	BCPP
Variation of Permissions (VoP)	This form is required by the FCA to outline the permissions being sought by BCPP and the controls, resources and personnel in place to manage the business. There is significant overlap with the Supplement above, but VoP takes precedent.	Alpha
Schedule of AIFs	This form is required to give details of the funds being created and offered by BCPP, including legal wrappers and asset class mix.	BCPP
FUND 3.2.2R Disclosure Checklist	A checklist to ensure BCPP have the required information available to provide to investors, for each AIF managed. This refers to the other documents and should be completed after the rest of the application.	Alpha
Checklist & Declaration	This form is required by the FCA as an attestation by BCPP that all required documents are included in their application and that all information provided is correct. This form outlines the FCA fees applicable to BCPP.	BCPP

7. BCPP Documents Required to be Available

Document	Owner	Status
Compliance Monitoring Programme	Alpha	Not Started
Compliance Manual	Alpha	In Progress
Policies & Procedures	Alpha	In Progress

8. Appendices

8.1 BCPP Ltd Permissions Outline

Taken from the Permissions Discussion Paper (July 2017):

Topic	Answer
Firm authorisation	BCPP is a full scope AIFM of UK AIFs.
Firm authorisation rationale	<p>BCPP will be managing UK Authorised Investment Funds (e.g. the ACS) that do not qualify as UCITS, as well as UK Unauthorised Investment Funds.</p> <p>These collectively are classified as Alternative Investment Funds (AIF). The current assumption is that the ACS funds will be structured as QIS. Further consideration is required to understand whether it is advisable to obtain FCA permissions for authorised and unauthorised investment funds in tandem. Given the differences in the operational model and fund structure it may be more feasible to first obtain the authorised investment funds permission and further down the line request a variation for unauthorised funds</p>
Provision of services beyond AIFM management functions	<p>BCPP will be providing services and activities other than AIFM management functions (FUND 1.4.7). These activities are limited to the activities permitted by article 6(4) of AIFMD. See permissions table 1 below for further info.</p> <p>As such the BCPP will be subject to additional requirements for those</p>

	services, but will remain in scope of AIFMD.
Small AIFM exemption	BCPP does not qualify for the small AIFM exemption given the size of the AuM being polled. To qualify, the AuM would have to be less than £100M (or less than £300M if internally AIFM)
Internally or externally managed AIFM	BCPP AIFs are not internally managed as none have their own governing body and, in any event, BCCP is an AIFM which is separate from, and hence external to, each of them.
Client money	The current working assumption is the clients will sign a waiver surrendering BCPP from its client money regulation requirements.
Fund types under management	See fund analysis breakdown for further detail on in scope funds Authorisation status of funds in scope include: <ul style="list-style-type: none"> - ACS (regulatory status not UCITS) - Unauthorised AIF
4a permissions	BCPP will be seeking 4a permissions: <ul style="list-style-type: none"> - AIFM management function: 'Managing an authorised AIF' and 'Managing an unauthorised AIF' (equivalent to Fund 1.4.7) - Other 4a permissions, outside the scope of AIFM management function, permitted by article 6(4) of AIFMD. See below table for further detail
Transition period	BCPP will not be seeking additional permissions to cover the transition period
MiFID II application	As an AIFM of AIFs with a Part 4A permission to manage investments including MiFID financial instruments pursuant to article 6.4 of AIFMD, certain MiFID provisions apply to BCPP when you provide investment services to third parties (see article 6.6 of AIFMD). As such BCPP is classified as Collective Portfolio Management Investment firm (CPMI), providing MiFID services. The impacts of this are mainly around the gold-plated requirements: best execution, inducements and research and tapping
Capital Requirements	As a Collective Management Portfolio Investment ("CPMI") firm, BCCP will be subject to (a) the AIFMD with respect to its management of the AIF's. It will require an initial capital of at least € 125,000. Thereafter, it will have to hold "own funds" in an amount which is the highest of: <ol style="list-style-type: none"> 1. the funds under management amount, i.e. € 125,000 + 0.02% of the amount by which the AuM exceeds € 250 million up to a maximum of € 10 million; or 2. the amount representing the fixed overheads requirement based on one quarter of annual expenditure on all the overheads, i.e. with respect to all management activities; In addition to the highest of 1 or 2, and to address its professional liability, BCCP will also have to hold capital in an amount of 0.01% of AuM or take out professional indemnity insurance to cover this amount. The FCA rules implementing the AIFMD, will require BCCP to invest the "own funds" in liquid assets or assets readily convertible to cash in the short term.

8.2 BCPP Ltd Permissions Table

Taken from the Permissions Discussion Paper (July 2017):

AIFMD Activity	Part II RAO Activities	Permission Required
FUND 1.4.7 the <i>AIFM investment management functions</i> of: (a) portfolio management; and (b) risk management.	n/a	Yes
Other functions that an AIFM may additionally perform in the course of the collective management of an AIF: (a) administration: (i) legal and fund management accounting services; (ii) customer enquiries; (iii) valuation and pricing (including tax returns); (iv) regulatory compliance monitoring; (v) maintenance of unit/share holder register; (vi) distribution of income; (vii) unit issues and redemptions; (viii) contract settlements (including certificate dispatch); and (ix) record keeping; (b) marketing; and (c) activities related to the assets of AIFs, namely: (i) services necessary to meet the fiduciary duties of the AIFM; (ii) facilities management; (iii) real estate administration activities; (iv) advice to undertakings on capital structure, industrial strategy and related matters; (v) advice and services relating to mergers and the purchase of undertakings; and (vi) other services connected to the management of the AIF and the companies and other assets in which it has invested.	n/a	Yes
FUND 1.4.3R (3): The management of portfolios of investments in accordance with mandates given by investors on a discretionary client-by-client basis, including the management of portfolios of investments for pension funds and institutions for occupation retirement provisions in accordance with article 19(1) of Directive 2003/41/EC.	Managing investments (Article 37)	Yes
	Dealing in investments as principal (Article 14)	Yes
	Dealing in investments as agent (Article 21)	Yes
	Arranging (bringing about) deals in investments (Article 25(1))	Yes
	Making arrangements with a view to transactions in investments (Article 25(2))	Yes
FUND 1.4.3R (4): Investment advice	Advising on investments (except pension transfers & opt-outs) (Article 53)	Yes
FUND 1.4.3R (5): Safe-keeping and administration in relation to shares or units of collective investment undertakings.	Safeguarding and administration of assets (without arranging) (Article 40)	No
	Arranging safeguarding and administration of assets (Article 40)	Yes
	Sending dematerialised instructions (Article 45)	No
	Causing dematerialised instructions to be sent (Article 45)	No
FUND 1.4.3R (6): Reception and transmission of orders in relation to financial instruments.	Arranging deals in investments (Article 25)	Yes
	Bidding in emissions auctions (Article 24A)	No
Other	Establishing, operating	Yes

	and winding up a collective investment scheme (article 51ZE)	
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