



Banc Ceannais na hÉireann
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Umbrella funds – cash accounts holding subscription, redemption and dividend monies

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Umbrella Funds – cash accounts

An umbrella fund refers to a UCITS umbrella fund, authorised under the European Community (UCITS) Regulations 2011 and an AIF umbrella fund authorised as a Retail Investor AIF or a Qualifying Investor AIF in accordance with the investment fund legislation as defined in the AIF Rulebook

General principles

1. This guidance applies to the holding of cash assets of umbrella funds in a single account at the level of an umbrella fund (“an umbrella cash account”) in the name of the investment fund, the fund management company¹ on behalf of the investment fund or the depositary. Cash assets refer to subscription and redemption money received from or due to investors in the sub-funds of the umbrella fund and dividend money due to investors from sub-funds.
2. Constitutional documents for umbrella funds must provide that assets and liabilities of each individual sub-fund are kept separate from all other sub-funds and that separate books and records are maintained for each sub-fund in which all transactions relevant to the sub-fund are recorded. **An umbrella cash account can only be established where the fund management company and depositary are satisfied:**
 - that at all times the amounts, whether positive or negative, within the umbrella cash account can be attributed to the individual sub-funds in order to comply with constitutional documents; and
 - that the holding of cash assets of umbrella funds in an umbrella cash account will not compromise the ability of the depositary to carry out its safe-keeping and oversight duties and responsibilities in accordance with the UCITS and AIFM Regulations.

¹ A UCITS management company, an AIFM, a self-managed UCITS or a self-managed AIF.

When it is not appropriate to operate an umbrella cash account

1. Sub-funds within an umbrella fund should not participate in an umbrella cash account:
 - Where those sub-funds are highly leveraged.
 - Where there is an increased possibility that investors subscribing to those sub-funds are likely to make late payments.
 - Where the umbrella fund commenced trading before 30 June 2005 and does not have segregated liability between sub-funds.
 - Where the constitutional document does not set out any consequences for investors who do not provide subscription proceeds by the stated settlement date.

Policies and procedures

1. The fund management company of an umbrella fund should, in conjunction with the depositary, establish a policy to govern the operation of an umbrella cash account. The policy should be reviewed by both parties, at least annually, and amended to strengthen controls and procedures as necessary to address any difficulties which have been identified by either party.
2. The policy should require, as a matter of procedure, that the following are identified at the outset and updated as necessary:
 - (i) The names of the participating sub-funds;
 - (ii) The name of the credit institution at which the account will be opened and the name and designation of the cash account;
 - (iii) Documentation required in order to transfer money from the account; and
 - (iv) The authorised signatories.
3. The policy should include the following procedures which should be agreed between the fund management company and the depositary of the umbrella fund:

- (i) A daily reconciliation process. This should include procedures to apply to the prompt investigation of any money remaining in the umbrella cash account. Where sub-funds of the umbrella fund do not deal on a daily or weekly basis, the reconciliation process can be carried out in accordance with the dealing frequency of the sub-funds but at least on a monthly basis.
- (ii) The treatment of money in the cash account when calculating the net asset value of the sub-funds.
- (iii) The procedure to apply where money will be transferred from the umbrella cash account to an investor money collection account held by a fund service provider in accordance with the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1) Investor Money Regulations 2015 for Fund Service Providers, where applicable.
- (iv) The procedure to apply where money transferred to a sub-fund is subsequently found to be owned by another sub-fund due to a late or non-payment from a subscribing investor.
- (iv) The procedure to apply to the resolution of shortfalls due to a late or non-payment from a subscribing investor, including the cancellation of units if appropriate.
- (iv) The reports to be provided to the fund management company in relation to the operation of the umbrella cash account.

Disclosure to investors

1. Irish authorised investment funds are required to provide details of the procedures and conditions for the issue and redemption of units in the prospectus.² Where an umbrella fund establishes an umbrella cash account, through which subscription and redemption money will be channelled, the prospectus should explain the way in which this account is established and how it will be operated in order to comply with the constitutional document.
2. Irish authorised investment funds are required to provide details of the risks that are applicable to investment in that particular investment fund. Where an

² Under the UCITS and AIFM Regulations and AIF Rulebook

umbrella fund establishes an umbrella cash account the risks to be disclosed include:

- (i) Where amounts held in the umbrella cash account are:
 - due to an investor as a result of redemption or dividend activity and the money cannot be transferred to the investor; or
 - received from an investor in advance of units being issued (in the context sub-funds which operate on a cleared funds basis),

the prospectus should include a risk warning to outline the rights of the investor and, in the case of first bullet point, highlight the need to address outstanding issues promptly. In particular the prospectus should explain that in both scenarios an investor is not a unit holder. In the event of an insolvency of the umbrella fund or the relevant sub-fund, the rights of the investor to money held in the umbrella cash account are those of an unsecured creditor to the umbrella fund.

- (ii) The right of the umbrella fund to cancel units or seek recovery, including any relevant credit charges, from investors who fail to pay subscription proceeds within the stated settlement period and the potential impact on the relevant sub-fund where this situation arises.
- (iii) The position of unit holders in a solvent sub-fund in the event of an insolvency of a sister sub-fund.

Treatment of subscription, redemption and dividend monies in umbrella cash accounts

1. Other than during the normal subscription and redemption process as prescribed in the constitutional document, there may be circumstances where money is retained in the umbrella cash account as follows:
 - (i) Where redemption or dividend money is received from the sub-fund account but cannot be transmitted to the relevant investor, for example where one or more investors have failed to supply such information as has been deemed

necessary to allow the investment fund comply with its obligations under applicable Anti-Money Laundering/Counter Terrorist Financing legislation.

- (ii) Where subscription money is received from an investor in advance of the settlement date.
 - (iii) Where subscription money is received with insufficient documentation to identify the owner.
2. An umbrella fund may elect to transfer money referred to in paragraph 1(i) to an investor money collection account held by a fund service provider in accordance with the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1) Investor Money Regulations 2015 for Fund Service Providers.
 3. The fund management company and the depositary should ensure that in the event that money referred to in paragraph 1(iii) cannot be applied it will be returned to the payer within 5 working days.

Insolvency of one sub-fund within an umbrella fund

1. In the case of insolvency of one of the sub-funds of the umbrella fund and, due to late payment of subscription proceeds, the insolvent sub-fund is found to hold money correctly owned by another sub-fund, the insolvency practitioner should be provided with all relevant details and supporting document in that regard.
2. The fund management company and the depositary should assist and petition the insolvency practitioner as necessary to ensure the timely recovery of the money due to the other sub-fund.

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