Via Online Response Form

7 September 2026

Ms. Charlotte Robins
Managing Director, Policy & Legal
Dubai Financial Services Authority
Level 13, West Wing, The Gate, DIFC
PO Box 75850, Dubai
United Arab Emirates

Re: Consultation Paper No. 173
Proposals to Enhance the DFSA's Collective Investment Fund Framework

Dear Ms. Robins

MFA[1] welcomes the thoughtful consideration of the Dubai Financial Services Authority ("**DFSA**") in modernising the Dubai International Financial Centre ("**DIFC**") collective investment fund framework and appreciates the opportunity to comment on Consultation Paper No. 173 ("**CP 173**" or the "**Consultation**").[2]

1 Managed Funds Association ("**MFA**"), based in Washington, D.C., New York City, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest it, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 fund manager members, including traditional hedge funds, private credit funds, and hybrid funds, that employ a diverse set of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns throughout the economic cycle.

2 DFSA, Consultation Paper No. 173: *Proposals to Enhance the DFSA's Collective Investment Fund Framework* (July 7, 2026), *available at* https://dfsaen.thomsonreuters.com/sites/default/files/net_file_store/CP_173_Enhance_the_DFSAs_collective_investment_fund_framework.pdf [hereinafter *CP 173*].

Building on our engagement with the DFSA on the 2024 Call for Evidence on Private Credit Funds, Consultation Paper No. 158, and Consultation Paper No. 162,[3] and on MFA's continued engagement with policymakers and MFA member firms in the region, MFA is pleased to provide the comments set out in the attached Annex.

The DIFC and the broader region is an important touchpoint with institutional investors, with a growing number of MFA members opening and expanding offices in the region to better serve investor needs. Most MFA members active in the DIFC are part of globally integrated investment management groups already regulated in jurisdictions such as the United States and United Kingdom. As a result, they are well positioned to comment on how the DFSA's proposals compare with international standards and on how they will work in practice for globally integrated fund management platforms.

MFA encourages the DFSA to continue its reform efforts to further enhance the attractiveness of the DIFC as a destination for international fund managers. We also encourage the DFSA to continue to expand its recognised jurisdictions framework and to give appropriate weight to home-country supervision (e.g. in the U.S., UK, and other established international regulatory jurisdictions) in its assessment of DIFC-authorised affiliates.

A summary of MFA's comments on the Consultation is that MFA supports:

- **Risk-based, activity-focused regulation**, by moving away from rigid specialist fund classifications toward a framework focused on fund activities, risks, and appropriate safeguards. This approach better accommodates hybrid and multi-strategy funds and aligns the DIFC with leading international regimes.

- **Principles-based regulation and group-wide compliance**, noting that core risk-management and disclosure requirements across fund managers, provided they remain principles-based, proportionate, and permit reasonable reliance on established group-wide systems and controls.

- **Cross-border delegation and master-feeder structures**, and we welcome the managing-assets clarification, master-feeder reforms, and broader master-fund definition. The DFSA is encouraged to confirm that these changes accommodate globally integrated structures involving delegation from, and master funds domiciled in, jurisdictions outside the DIFC.

3 *See* MFA, Comment Letter re DFSA Call for Evidence on Private Credit Funds (May 10, 2024), *available at* https://www.mfaalts.org/wp-content/uploads/2024/05/MFA-Comment-Letter-re-DFSA-Call-for-Evidence-for-Credit-Funds-051024-FINAL.pdf [hereinafter *MFA CFE Response*]; MFA, Comment Letter re DFSA Consultation Paper No. 158 (May 20, 2024), *available at* https://www.mfaalts.org/wp-content/uploads/2024/05/MFA-Comment-Letter-DFSA-Consultation-158-re-Private-Credit-Funds-052024-FINAL.pdf [hereinafter *MFA CP 158 Response*]; MFA, Comment Letter re DFSA Consultation Paper No. 162 (Dec. 23, 2024), *available at* https://www.mfaalts.org/wp-content/uploads/2024/12/MFA-Comment-Letter-DFSA-Consultation-162-Statutory-Objectives-23Dec24-FINAL.pdf [hereinafter *MFA CP 162 Response*].

- **The continued modernisation of the private credit framework**, including removal of unnecessary structural restrictions and recognition of hybrid strategies, fund-finance transactions, NAV lending, syndicated lending, and secondary credit market activity.

- **Disclosure-based leverage and liquidity oversight**, but the DFSA should avoid prescriptive leverage and liquidity requirements for professional investor funds and instead rely on principles-based standards, appropriate disclosure, governance, and risk-management controls.

- **Broader employee investment alignment in employer-managed funds** and encourages the DFSA to accommodate employees of foreign affiliates and commonly used non-DIFC co-investment vehicles.

- **Sensible transition and onshoring**, delivering a prospective removal of the external fund manager regime, accompanied by a meaningful transition period and streamlined authorisation pathways for firms already regulated by recognised international regulators.

- **Responsible tokenisation**, in furtherance of the DFSA's continued work in this area and encourages a principles-based framework grounded in technology neutrality, custody clarity, ownership recognition, AML/CFT safeguards, transfer certainty, and cross-border interoperability.

- **Responsible retail access to private markets**, which would facilitate appropriately structured retail access to LTIFs and other long-term private-market strategies, accompanied by robust disclosure, governance, valuation oversight, liquidity management tools, and suitability safeguards tailored to the product and investor base.

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MFA supports the DFSA's objectives to modernise and calibrate the funds framework. We would welcome the opportunity to discuss these recommendations and provide further detail regarding our comments on the Consultation. If you have any questions about these comments, or if we can provide further information, please do not hesitate to contact Jeff Himstreet (jhimstreet@mfaalts.org) or the undersigned (rhailey@mfaalts.org).

Yours sincerely,

/s/ Rob Hailey

Rob Hailey
Managing Director, Head of EMEA Government Affairs
MFA

Annex — Responses to Consultation Questions

Q1: Do you have comments on the DFSA's proposals to move away from fixed classifications of Funds?

MFA response

MFA strongly supports the DFSA's proposal to move away from fixed specialist classifications for exempt funds[4] and Qualified Investor funds ("**QIFs**") and toward a framework that focuses on the activities a fund undertakes, the associated risks, and the safeguards needed to manage those risks. Rigid classifications no longer reflect how many sophisticated managers construct portfolios: hybrid and multi-strategy funds blend traditional and alternative strategies,[5] and modern credit strategies often combine debt, equity, and structured components that do not sit within any single specialist category.

The Consultation's approach is consistent with international regulatory practice for professional investor funds[6] and will contribute to making the DIFC more attractive to global asset managers seeking to establish a regional presence. We suggest two clarifications:

(i) MFA seeks DFSA confirmation, in supervisory guidance or through the policy statement, that it will not re-impose specialist-class expectations through supervisory practice or through non-binding guidance directed at particular investment strategies.

(ii) If the DFSA determines in the future that new specialist rules are warranted for a particular strategy or asset class, we ask that it do so through public consultation rather than through case-by-case waivers[7] or supervisory expectations, so that the market has greater certainty and can plan accordingly.

4 Unless otherwise indicated, terms used in this letter have the current meanings assigned to them in the glossary accompanying the Consultation. *See supra* note 2, at Appendix 6 (amendments to the glossary), *available at* https://dfsaen.thomsonreuters.com/rulebook/consultation-paper-no-173-proposals-enhance-dfsas-collective-investment-fund-framework

5 *CP 173, supra* note 2, ¶¶ 20–21 (noting market feedback that fixed classifications are "overly restrictive and do not adequately accommodate hybrid or multi-strategy investing").

6 *Id.* ¶ 22 (specialist class requirements found "overly prescriptive" relative to comparable jurisdictions).

7 *See* Regulatory Law 2004, art. 25 (DFSA power to waive or modify Rules); *CP 173, supra* note 2, ¶¶ 61–63 (proposing a parallel power to waive or modify the Collective Investment Law).

Q2: Do you have comments on the DFSA's proposals to apply certain requirements (e.g. on risk management) horizontally to all Fund Managers?

MFA response

MFA supports the principle of applying core requirements, particularly on risk management systems and fund risk profiling,[8] horizontally across all fund managers. Robust risk management is a foundational expectation for any regulated asset manager, and consistency across the DFSA's regime makes sense. We ask the DFSA, however, to consider the following three points so the horizontal standards remain proportionate and workable for international fund managers.

- **Principles-based, not prescriptive.** We encourage the DFSA to articulate the horizontal risk management requirements at a principles-based level, allowing fund managers to calibrate systems and controls to the nature, scale, and complexity of the fund and its strategy. Overly prescriptive requirements would risk recreating the rigid framework that the Consultation appropriately seeks to replace.

- **Recognition of group-wide systems.** Many MFA members operating in the DIFC are affiliates of U.S. Securities and Exchange Commission ("**SEC**")- or UK Financial Conduct Authority ("**FCA**")-registered asset managers that maintain mature enterprise-wide risk management frameworks subject to ongoing home-country supervision.[9] We request that the DFSA confirm that fund managers may rely on those group-wide frameworks, with appropriate adaptation for the DIFC fund and its investors, when satisfying the horizontal requirements.

- **Practical guidance on fund risk profiling.** We would welcome DFSA guidance on the form and content of the new fund risk profile requirement. In particular, confirmation that a concise, principled document (rather than a lengthy quantitative appendix) will meet the requirement for professional investor funds.

Q3: Do you have comments on the DFSA's proposals in paragraph 24(b) regarding borrowing?

MFA response

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8 *CP 173, supra* note 2, ¶ 24(a) (proposing to apply existing risk management requirements in Collective Investment Rules ("**CIR**") 13.6.1 and 13.6.2 horizontally, together with new fund-risk-profile requirements, to all fund managers including those of public funds).

9 *See, e.g.,* SEC, Investment Advisers Act of 1940, 15 U.S.C. § 80b-4a (compliance programs); 17 C.F.R. § 275.206(4)-7 (Advisers Act compliance rule), *available at* https://www.ecfr.gov/current/title-17/chapter-II/part-275/section-275.206(4)-7; Directive 2011/61/EU, art. 15 (risk management for AIFMs) [hereinafter *AIFMD*]; FCA Handbook, SYSC 4 & SYSC 7 (general and risk-control requirements).

MFA supports the DFSA's shift from prescriptive borrowing caps for exempt funds and QIFs toward a "reasonable and prudent" standard combined with disclosure of borrowing practices.[10] MFA seeks revision on the proposed requirement that managers disclose a "high water" level of borrowing. For dynamic or multi-strategy funds, a single fixed "maximum" borrowing level may be less meaningful than disclosure of the fund's borrowing practices, financing sources, collateral arrangements, expected range or methodology, and risk management controls. Disclosure of a methodology, range, or risk management framework is likely to be more meaningful to investors than disclosure of a single, estimated, numerical maximum borrowing figure that may change due to circumstances wholly beyond the manager's control.

MFA notes that leverage in many alternative investment strategies is inherently dynamic and may fluctuate materially based on market conditions, counterparty requirements, collateral values, funding availability, and portfolio composition. Borrowing availability and terms may also change over time based on negotiated financing arrangements, margin requirements, collateral values, and counterparty risk assessments. MFA recommends that the proposed standards in paragraph 24(b) be modified away from disclosing a maximum amount and replaced by a description of borrowing practices, the use of collateral, and leverage risk management controls. This is a sensible, disclosure-led approach that aligns with the direction of travel among leading international regulators and preserves flexibility for funds pursuing dynamic strategies. MFA offers five recommendations.

- **No hidden numerical cap.** We ask the DFSA to confirm that the "reasonable and prudent" standard operates as a genuine principles-based requirement, without a bespoke numerical cap or supervisory presumption of a particular leverage level. The appropriateness of a given borrowing cap will depend on the strategy and counterparty relationships of the exempt fund/QIF.

- **Disclosure format.** For multi-strategy and dynamic funds, expressing an expected maximum as a single hard number is often not meaningful. We ask that the DFSA permit disclosure by reference to an anticipated leverage ratio, a range, or a stated methodology, with a narrative explanation of the use of netting, collateral, and other risk mitigants.

- **Periodic updating.** Strategies evolve, and counterparties may adjust borrowing amounts and conditions on little or no notice. MFA requests that the DFSA confirm that the description of borrowing practices may be updated periodically without requiring investor consent or a formal amendment of the private placement offering documents, so long as the change is disclosed clearly and prospectively.

- **Interoperability with home-country reporting**, where a DIFC fund manager is part of a group subject to leverage reporting under home-country rules, in particular SEC Form PF (which requires confidential reporting of assets under management, gross notional exposure, and various

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10 *CP 173, supra* note 2, ¶ 24(b) (borrowing limitations to be calculated on a "reasonable and prudent" basis, with disclosure of the expected maximum level of borrowing and the basis for its determination).

leverage metrics) or UK Annex IV reporting for AIFMs (which uses gross and commitment leverage methodologies).[11]

We note that both the SEC and FCA are currently seeking comment on significant reforms to their respective fund reporting regimes under Form PF and the FCA's proposed fund Reporting for Asset Management Entities ("**FRAME**") framework.[12] Both the SEC and FCA proposals mark an improvement over the status quo but each require substantial refinement to avoid being overly broad and burdensome – neither at the time of writing provides a useful template from which the DFSA can draw.

Once the FCA and SEC have completed their work and adopted any changes, MFA requests that the DFSA publish supervisory guidance mapping the "reasonable and prudent" disclosure to those established methodologies, so that a DIFC fund manager may use its existing methodology to satisfy the DIFC calculation and disclosure. This would materially reduce duplicative work without diluting the DFSA's standard.

- **Transition and existing Prospectuses.** MFA requests that the DFSA confirm that existing Prospectuses may be updated to add the new borrowing disclosure at the next scheduled Prospectus amendment cycle, rather than requiring an off-cycle amendment.

Q4: Do you have comments on the DFSA's proposals to apply the requirements on the use of prime brokers more broadly beyond Hedge Funds?

MFA response

MFA supports the DFSA's proposal to extend the existing prime broker requirements in CIR 13.6.3 to exempt funds and QIFs that authorise a prime broker to pool, re-hypothecate, or use fund assets as collateral.[13] Managers of QIFs engaging in strategies beyond traditional hedge funds, such as multi-strategy, credit, and hybrid funds, routinely use prime brokerage services for financing, securities lending, and collateral management. It is sensible for the same investor-protection safeguards to apply irrespective of the fund's label. We suggest three drafting clarifications.

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11 *See* SEC, Form PF (private fund adviser leverage reporting), *available at* https://www.sec.gov/files/formpf.pdf; AIFMD, *supra* note 9, art. 24 & Annex IV (leverage and risk reporting to competent authorities).

12 *See* SEC, Form PF; Reporting Requirements for All Filers and Large Hedge Fund Advisers, Release Nos. IA-6650; IC-35592 (Jan. 29, 2025), *available at* https://www.sec.gov/rules-regulations/2025/01/form-pf-reporting-requirements-all-filers-large-hedge-fund-advisers (proposing amendments to confidential private fund reporting under Form PF); FCA, CP26/26: Fund Reporting for Asset Management Entities (FRAME) (July 14, 2026), *available at* https://www.fca.org.uk/publications/consultation-papers/cp26-26-fund-reporting-asset-management-entities-frame (proposing a new regulatory reporting framework intended to replace and consolidate existing fund reporting requirements, including reporting currently derived from the AIFMD framework).

13 *CP 173, supra* note 2, ¶ 24(c) (extending existing prime-broker requirements in CIR 13.6.3 to QIFs and exempt funds that authorise a prime broker to pool, re-hypothecate, or use fund assets as collateral).

- **Confirmation of applicability.** MFA requests that the DFSA confirm that the requirements apply only where the fund has in fact authorised the prime broker to pool, re-hypothecate, or use fund assets as collateral, and not merely because a fund uses a prime broker for execution, custody, or margin financing without such authorisation.

- **Clarification of the use of non-DIFC prime brokers.** MFA members almost exclusively use prime brokers established outside the DIFC (in the U.S., the UK, or, in some cases, EU or Asian financial centres).[14] We encourage the DFSA to confirm that the CIR 13.6.3 requirements accommodate such arrangements without requiring bespoke amendments to global prime-brokerage documentation or driving new prime broker relationships solely to satisfy the Consultation's requirements.

- **Use of standardised industry documentation.** We ask the DFSA to confirm that the requirements can be satisfied through standard prime brokerage terms as ordinarily negotiated in the global market, including limits on re-hypothecation and collateral segregation provisions.

Q5: Do you have comments on the DFSA's proposals to retain certain requirements for investment strategies that involve Providing Credit?

<u>MFA response</u>

MFA responded to the DFSA's 2024 Call for Evidence on Private Credit Funds and to Consultation Paper No. 158,[15] and we welcome the DFSA's continued engagement on the private credit fund framework. The Consultation builds constructively on that earlier work. We welcome the removal of the 90% fund Property test in CIR 3.1.15[16] and the alignment of base capital and fees for fund managers with credit-related strategies. Together with the DFSA's prior reforms permitting DIFC managers to manage external funds constituted as credit funds, these changes help make the DIFC a genuinely viable home for external private credit and multi-strategy funds.

MFA does not object to the DFSA retaining targeted safeguards in areas that present distinct prudential or investor protection considerations, provided those safeguards are construed narrowly and do not impair ordinary course private credit, fund finance, syndicated loan, secondary market, hedging, or multi-strategy activity. We note that fund finance and NAV-based lending have become integral features of the

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14 *See* FCA, Prime Brokerage Agreements, PERG 13, *available at* https://www.handbook.fca.org.uk/handbook/PERG/13/; Sec. & Exch. Comm'n, Rule 15c3-3 (customer protection), 17 C.F.R. § 240.15c3-3 (governing U.S. broker-dealer treatment of customer property, including re-hypothecation), *available at* https://www.ecfr.gov/current/title-17/chapter-II/part-240/section-240.15c3-3.

15 *See MFA CFE Response, supra* note 3; *MFA CP 158 Response, supra* note 3 (MFA supported the DFSA's proposals to modernise the credit fund regime and permit DIFC managers to manage external funds constituted as credit funds).

16 *CP 173, supra* note 2, ¶¶ 26–27 (removing the 90% fund Property test in CIR 3.1.15 while retaining prohibitions on letters of credit and financial guarantees, and on lending to natural persons, persons using credit for trading, and persons providing credit).

modern fund ecosystem and provide important liquidity and portfolio management tools for institutional investors.

- **NAV lending and fund finance.** MFA asks that the DFSA confirm expressly that NAV lending and other fund-financing strategies – lending to funds (including feeder funds, SPVs, or other holding vehicles used by funds) collateralised by the borrower's investment portfolio – are permitted, and that such lending is not caught by the prohibition on lending to persons "who intend to use the credit for the purpose of providing credit" unless the borrower is itself a lending vehicle.

- **Syndicated loans and secondary purchases.** Modern private credit funds routinely acquire loans on the secondary market or participate in syndicated facilities. We encourage the DFSA to confirm that the retained safeguards apply to the direct origination of credit, not to secondary market purchases of loans or participations, which are investment activities.

- **Hedging and ancillary transactions.** MFA requests that the DFSA confirm that a fund providing credit may enter into ancillary transactions, including credit protection, foreign exchange, and interest rate hedging, without those transactions being characterised as, or affecting the treatment of, the underlying credit provision.

- **"Natural persons" prohibition.** We ask the DFSA to confirm that this prohibition targets direct lending to individuals below a specified eligibility standard – there exist natural persons throughout the gulf region that possess the requisite sophistication and net worth to be suitable investors for any strategy. The DFSA prohibition similarly should not prevent lending to a corporate entity (for example, a family office holding company) merely because the entity is owned or controlled by a natural person.

Q6: Do you have comments on the DFSA's proposals to expand the Venture Capital Fund Manager regime to Funds dedicated to investing in Venture Capital Funds?

MFA response

[No answer]

Q7: Do you have comments on the DFSA's proposal to clarify that Dealing in Investments as Agent and Arranging Deals in Investments are covered by an authorisation to Manage Assets, where necessary for the investment management of Fund Property under a delegation?

MFA response

MFA strongly supports this clarification.[17] Requiring separate authorisations for dealing in investments as agent and arranging deals in investments, where those activities are ancillary to delegated portfolio management, has been a longstanding source of authorisation complexity and cost for firms with no independent agency or arranging business. Folding these activities into the managing assets licence brings the DIFC into line with international practice, under which delegated investment management is treated as a unitary activity.[18] MFA requests a number of clarifications regarding the scope of the "Manage Assets" as discussed in below.

- **Delegation from non-DIFC fund managers.** The most common structure for MFA members is a DIFC-authorised affiliate operating pursuant to a delegation agreement with an affiliated foreign fund manager (typically an SEC-registered adviser or an FCA-authorised firm). MFA requests that the DFSA confirm that the clarification applies equally whether the delegating fund manager is a DIFC entity, an external fund manager during the transition period, or a foreign fund manager of a foreign fund managed in and from the DIFC.

- **Sub-delegation.** MFA requests that the DFSA confirm that the clarification also covers sub-delegation arrangements (for example, where a DIFC investment manager sub-delegates portions of the portfolio to a specialist affiliate for particular asset classes).

- **Streamlined surrender of redundant permissions.** MFA supports the DFSA's expectation in paragraph 37 of CP 173 that Authorised Firms using Dealing as Agent and Arranging permissions exclusively for delegated fund management may apply to surrender them. We ask the DFSA to publish a streamlined variation-of-permission process (with a nominal or waived application fee) to facilitate this.

- **Centralised execution and affiliated portfolio management structures.** MFA requests that the DFSA confirm that execution, dealing, arranging, and related trading activities undertaken by a DIFC-authorised affiliate on behalf of an affiliated portfolio manager fall within the Managing Assets permission where they are performed as part of an integrated investment management function and not as a separate client-facing dealing or arranging business. Many MFA members operate globally integrated investment platforms in which portfolio-management decisions and trade execution are performed by different affiliates within the same corporate group. For example, a portfolio manager located outside the DIFC may make an investment decision, while a DIFC-authorised affiliate serves as a centralised execution desk and executes the trade on behalf of the relevant fund. The requested clarification would better reflect how global asset managers operate in practice, reduce unnecessary licensing complexity, and further the Consultation's objective of streamlining authorisation requirements for fund managers.

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17 *Id.* ¶¶ 34–37 (proposed amendments to General Rulebook ("**GEN**") 2.10.1(2)).

18 *See* AIFMD, *supra* note 9, art. 20 (delegation by AIFMs); Directive 2014/65/EU, art. 16 ("**MiFID II**") (organisational requirements applicable to delegated portfolio management), *available at* https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0065.

Q8: Do you have comments on the DFSA's proposal to broaden the category of Funds that an investment manager can invest in (initially) without the need to be authorised for Dealing in Investments as Principal?

MFA response

MFA supports the extension of the exclusion in GEN 2.7.5 beyond private equity funds and recommends that the DFSA consider a further broadening that would reduce authorisation friction without diminishing investor protection.

- **Extend the exclusion to all exempt funds and QIFs.** General partner or sponsor commitments and seed investments are a common feature across all categories of professional investor funds, not only Private Equity and Venture Capital funds. We ask the DFSA to consider extending the exclusion to initial subscriptions in any exempt fund or QIF managed by the investment manager (or an affiliate), provided the Units are held for at least 12 months. This would align the treatment with the DFSA's parallel policy in Section E of the Consultation permitting employee co-investment in employer-managed funds.
- **Related-party subscriptions.** MFA encourages the DFSA to confirm that subscriptions by an affiliated general partner or sponsor entity for its balance sheet commitment fall within the exclusion, without needing an entity-by-entity assessment.

Q9: Do you have comments on the DFSA's proposals to remove some of the Master Fund eligibility criteria for public Feeder Funds?

MFA response

MFA strongly supports the removal of the three market-maker requirement in CIR 13.2.1(2)(b) and the 20% cap on a feeder fund's holding of master fund units in CIR 13.2.1(2)(c).[19] Neither requirement reflects how master-feeder structures operate internationally, and both have effectively prevented the establishment of public feeder funds in the DIFC. The DFSA is right to conclude that they are duplicative of the existing liquidity management requirements applicable to fund managers.

- **Feeders into non-DIFC master funds.** The typical master-feeder structure involves a DIFC feeder fund investing into an offshore master fund domiciled in the Cayman Islands, Luxembourg, or Ireland, alongside other regional feeders. We ask the DFSA to confirm that the modernised rules work for such cross-border structures and that the DFSA will apply its existing recognition frameworks pragmatically.

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19 *Id.* ¶¶ 41–43 (removing the requirement in CIR 13.2.1(2)(b) that a master fund's Units be offered by at least three market makers, and the 20% cap in CIR 13.2.1(2)(c) on a feeder fund's holding of the master fund's Units).

- **Reasonable ancillary holdings.** A feeder fund typically needs to hold a small amount of cash, near-cash, and hedging instruments to manage subscriptions, redemptions, and currency exposure. We ask the DFSA to confirm that the requirement that a feeder fund be "dedicated to investing" in the master fund is not disturbed by ancillary cash, short-dated liquid instruments, and hedging held for these purposes.

Q10: Do you have comments on the DFSA's proposal to broaden the definition of Master Fund?

MFA response

MFA strongly supports the DFSA's proposal to broaden the definition of master fund to permit direct subscriptions by institutional and professional investors alongside subscriptions from feeder funds.[20] This aligns the DIFC with universally accepted master-feeder practice and removes a longstanding structural obstacle to using DIFC funds within global fund complexes.

- **International consistency.** The reformed definition should map onto master-feeder structures established under U.S., UK, EU, and Cayman Islands law without further conforming amendments. We would welcome DFSA guidance confirming interoperability with recognised international structures.

- **Direct-investor governance.** Where a master fund has both feeder fund and direct institutional investors, the fund manager will need to manage the potentially differing interests of those two investor cohorts. Standard fund documentation deals with this in the ordinary course, and no additional DFSA rule prescription should be needed. We ask the DFSA to confirm that this is a matter for the fund manager's existing conflicts-of-interest and disclosure obligations.

Q11: Do you have comments on the DFSA's proposal to remove the EFM regime?

MFA response

MFA understands the DFSA's rationale for removing the external fund manager ("**EFM**") regime and does not object in principle. We note the DFSA's observation of declining demand for the EFM route and that firms increasingly prefer full DFSA authorisation.[21]

MFA views the removal of the EFM regime, combined with the broader modernisation in CP 173, as likely to accelerate rather than deter onshoring of managers into full DIFC authorisation.[22] Many MFA members

20 *Id.* ¶ 44 (broadening the definition of master fund in CIR 1.2.2 and CIR 3.1.5 to permit direct subscriptions from non-feeder fund investors).

21 *Id.* ¶¶ 45-48 (proposed amendments to Regulatory Law arts. 41(9) and 42(3)(a), CIL art. 20(5), CIR section 6.1, and CIR section 1.1); *cf. id.* ¶ 47 n.21 (DFSA to engage with existing external fund managers ("**EFMs**") on continuing to manage existing funds).

22 *See MFA CP 162 Response*, *supra* note 3 (MFA supporting the DFSA's introduction of a competitiveness-oriented statutory objective and noting members opening offices in the DIFC to serve regional institutional investors).

that currently use, or would have considered, the EFM route are likely to establish full DIFC-authorised entities as a consequence of these reforms and of the DIFC's broader business environment. To ensure that this transition happens smoothly, we ask the DFSA to address the following in the final rules and any accompanying transitional guidance.

- **Thoughtful, deliberate transition.** For existing EFMs, we ask that the DFSA provide a transition period of at least twelve months (materially longer than the general three-month transition in paragraph 66 of the Consultation) to allow orderly restructuring and, where appropriate, authorisation of a DIFC entity.

- **Streamlined authorisation for regulated global managers.** For EFMs (and new applicants) that are affiliates of firms already regulated by the SEC, the FCA, or another recognised international regulator, we ask the DFSA to consider a streamlined authorisation pathway that gives appropriate weight to existing home-country authorisation, compliance infrastructure, and fitness-and-propriety assessments, reducing duplicative documentation without lowering the DFSA's standards.

- **Grandfathering of existing funds.** We agree with the DFSA's indication that it will engage with existing EFMs on continuing to manage existing funds. MFA asks that this engagement be conducted through a published, transparent process, and that existing funds be permitted to continue in accordance with their existing terms during the transition period, without adverse consequences to investors.

- **Preservation of DIFC fund managers' ability to manage foreign funds.** MFA welcomes the DFSA's express confirmation, in paragraph 48 of CP 173, that DIFC-based fund managers may continue to manage foreign funds. This is a fundamental component of the DIFC's value proposition as an international financial centre and should be preserved in the final rules.

Q12: Do you have comments on the DFSA's proposals to permit Employees involved in the investment management process to make direct and indirect investments in the Funds that their employer manages?

MFA response

MFA strongly supports the DFSA's proposal to permit employee investment in employer-managed funds, both directly and through dedicated vehicles.[23] Employee co-investment is a fundamental feature of the alternative asset management industry: it aligns employees with investors, is a key element of recruitment and retention, and is universal practice in the U.S., UK, and EU fund industries. Employee participation also promotes retention of talent, investment culture, and the alignment of long-term

23 *CP 173, supra* note 2, ¶¶ 49–55 (proposed amendments to CIL art. 16(8), CIR Rules 1.2.2, 12.1.1(6), and 12A.1.1(5); employees to meet experience criteria in Conduct of Business ("**COB**") Rule 2.3.7(1)(b)).

incentives between investment professionals and fund investors. The DFSA's proposal aligns broadly with the treatment of employee investment programmes under U.S. and other international frameworks,[24] which will help DIFC affiliates plug into global co-investment programmes.

The current DIFC restrictions have been a source of friction for MFA members establishing regional offices. We offer the following observations.

- **Definition of "Employee".** For MFA members, the individuals involved in the investment management of a DIFC fund are typically drawn from a global team and may be employed by an affiliate outside the DIFC (in the U.S., UK, or elsewhere). It is critical that the DFSA confirms that "Employee" includes employees of the fund manager's wider corporate group who are directly involved in the investment management of the fund, and not only employees on the DIFC entity's payroll.

- **Scope of eligible individuals.** The proposal in paragraph 51 focuses on employees directly involved in "the execution of the investment decisions" or in "providing investment advice." MFA believes this scope is too narrow.[25] We ask the DFSA to broaden this to include management with strategic oversight of the fund, and control function staff (e.g., senior compliance, legal, investor relations, marketing, information technology, and risk personnel) whose role is central to the fund's operation. Excluding these individuals from the alignment mechanism creates unhelpful internal distortions and limits the ability of employees, with appropriate guardrails, to invest in the funds managed by their employer.

- **Indirect vehicles domiciled outside the DIFC.** International fund managers typically use employee co-investment vehicles established in familiar offshore or onshore jurisdictions (e.g., Delaware LLCs, Cayman entities, English limited partnerships) that pool across strategies and offices. We recommend that the DFSA confirm that the CIR exclusion for indirect employee investment vehicles applies regardless of the vehicle's jurisdiction of establishment, provided its function is employee co-investment and it satisfies the substantive conditions.

- **Carried interest.** Where an employee's participation in the fund is delivered through a carried interest or other performance-linked mechanism rather than a straightforward unit subscription, we ask the DFSA to confirm that the relief applies equally, so that carried interest arrangements common in private credit, private equity, and hybrid funds are accommodated.

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24 *See* Investment Company Act of 1940 §§ 3(c)(1), 3(c)(7), 15 U.S.C. § 80a-3(c)(1), (7), *available at* https://www.law.cornell.edu/uscode/text/15/80a-3; 17 C.F.R. § 270.3c-5, *available at* https://www.ecfr.gov/current/title-17/chapter-II/part-270/section-270.3c-5 (defining "knowledgeable employee" for purposes of private funds relying on §§ 3(c)(1) and 3(c)(7)); 17 C.F.R. § 230.506, *available at* https://www.ecfr.gov/current/title-17/chapter-II/part-230/section-230.506.

25 MFA also believes that 1940 Act Rule 3c-5 similarly is overly narrow given the broad range of knowledgeable, sophisticated private fund employee beyond the narrow scope of investment or portfolio management personnel.

- **Proportionate disclosure.** MFA supports general disclosure of employee investment and of the associated conflicts management. DFSA should confirm that a concise, general form disclosure in the Prospectus, i.e., that employees participate and that conflicts are managed under stated policies, will satisfy the requirements.

As a comparison point, SEC Investment Company Act of 1940 Rule 3c-5's knowledgeable employee standard is considerably underinclusive because it excludes many experienced legal, compliance, risk, operations, technology, finance, and investor-relations professionals who possess substantial knowledge of a fund's business, risks, and operations and are equally appropriate participants in employee investment programmes.[26]

Q13: Do you have any comments on the DFSA's proposal to change the accounting period for the first annual report?

MFA response

MFA supports the extension of the accounting period for the first annual report from twelve to eighteen months.[27] It is a practical, welcome fix that recognises the reality that many funds take some months to launch after establishment.

- **Election.** We ask the DFSA to confirm that a fund manager may elect either a twelve- or eighteen-month first accounting period at fund launch, so that funds that launch promptly are not obliged to run an extended first period.
- **Interim reporting.** For an eighteen-month first period, MFA requests that the DFSA confirm that a single interim report at the nine-month mark will be sufficient, and to consider whether an even later interim date is appropriate for funds with a slow ramp-up (for example, closed-ended private credit or private equity funds where meaningful activity does not commence until the first close plus a warehousing period).
- **Waivers in exceptional cases.** We ask the DFSA to confirm that, in exceptional cases (for example, a fund that has not made any meaningful investment by the eighteen-month mark), the DFSA will consider a further short extension on application, using its general waiver power.

26 *See* 17 C.F.R. § 270.3c-5, *available at* https://www.ecfr.gov/current/title-17/chapter-II/part-270/section-270.3c-5 (defining "knowledgeable employee" for purposes of Sections 3(c)(1) and 3(c)(7) of the Investment Company Act and generally limiting eligibility to certain executive officers, directors, and employees participating in investment activities); *see also* SEC, Exemption for Certain Investment Company Employees, Investment Company Act Release No. 22597, 62 Fed. Reg. 17,512 (Apr. 9, 1997), *available at* https://www.sec.gov/rules/final/1997/ic-22597.pdf

27 *CP 173, supra* note 2, ¶¶ 56–57 (proposed amendments to CIR Rule 9.4.2(2)).

Q14: Do you have comments on the DFSA's proposal to make a technical amendment to the CIL and the Rulebook as per paragraph 60?

MFA response

MFA supports the proposed amendments to the fund manager definition and the removal of the "legal accountability to [u]nitholders" concept.[28] The current formulation has, as the DFSA notes, caused genuine difficulty for global fund structures under which the fund manager's obligations are owed to the fund vehicle or its general partner or board, rather than directly to investors. Aligning the DIFC definition with the mainstream international approach will facilitate the management of foreign funds in and from the DIFC and remove a real disincentive for MFA members establishing DIFC platforms.

- **No reduction in investor protection.** We agree with the DFSA's observation, in footnote 28 of the Consultation, that the amendment does not reduce investor protection. Fund managers remain subject to Article 22(3) of the Collective Investment Law No. 2 of 2010 ("**CIL**")[29] and to the extensive investor protection rules in CIR chapters 8 and 14 and GEN chapter 4. The change is technical and clarificatory, not substantive.

- **Consistency with the investment trust law.** We ask the DFSA to confirm that the equivalent amendments to the Investment Trust Law No. 5 of 2006 achieve a consistent result for unit trust structures, so that trust-form and non-trust vehicles are treated consistently in this respect.[30]

- **Application to delegated arrangements.** We ask the DFSA to confirm that the revised definition works cleanly where a DIFC entity acts as delegate of a foreign fund manager, so that there is no residual ambiguity about which entity is the "fund manager" for particular purposes under the Rulebook.

Q15: Do you have comments on the DFSA's proposal to recommend the introduction of a power to waive and modify the CIL as per paragraph 63?

MFA response

28 *Id.* ¶¶ 58–60 (proposed amendments to CIL arts. 20(2)(a) and 22(2)(g)(ii), GEN Rule 2.12.1(1)(a), and related Guidance).

29 Collective Investment Law, DIFC Law No. 2 of 2010, art. 22(3).

30 *See* Dubai International Financial Centre, Investment Trust Law, DIFC Law No. 5 of 2006; Dubai Fin. Servs. Auth., Consultation Paper No. 173: Proposals to Enhance the DFSA's Collective Investment Fund Framework ¶¶ 58–60*, available at* https://dfsaen.thomsonreuters.com/sites/default/files/net_file_store/CP_173_Enhance_the_DFSAs_collective_investment_fund_framework.pdf. Because many globally managed fund structures utilize trusts, partnerships, corporate vehicles, and similar legal forms interchangeably, equivalent regulatory treatment across vehicle types promotes operational efficiency, reduces unnecessary complexity, and facilitates international interoperability.

MFA supports the introduction of a power for the DFSA to waive or modify provisions of the Collective Investment Law, aligned with the existing waiver power in the Markets Law.[31] As the DFSA notes, the CIL applies detailed requirements directly to fund managers, and the breadth of business models a modern funds framework must accommodate makes a targeted waiver power sensible and consistent with international regulatory practice.

- **Transparent exercise.** We ask the DFSA to publish waivers and modifications granted under the new CIL power (as it does for rulebook waivers), so that market participants can see how the power is used and can plan structures accordingly. Publication supports market certainty and equal treatment.

- **Guidance on exercise.** The DFSA states that the power will be exercised "only in limited circumstances and subject to robust internal processes." We would find it helpful if the DFSA published high-level guidance on the factors it will consider when deciding whether to exercise the power, for example, the DFSA's statutory objectives, comparability with international practice, and the nature of the investor base.

- **Flexible accommodation of global fund structures.** We encourage the DFSA to use its authority, where constructive and consistent with its objectives, to accommodate globally recognised fund structures (for example, U.S. closed-end fund analogues or UK unit trust equivalents) that do not fit precisely within the CIL as drafted. This flexibility will be particularly valuable during the DIFC's next phase of asset management growth.

Q16: Do you have comments on the DFSA's proposal to streamline provisions of the CIL and the Rulebook as per paragraph 65?

MFA response

MFA supports the DFSA's streamlining proposals. The identified overlap between CIR 1.2.2(a), CIR 1.1.3(a), and CIR 1.1.4(a), and the redundancy of CIL Articles 10 and 17, are appropriately targeted.[32] Reducing duplication makes the rulebook easier to navigate and comply with, without changing underlying policy.

- **Correlation table.** We welcome Appendix 11 (correlation table of CIR) and encourage the DFSA to publish a consolidated tracked-changes version of the CIR alongside the final Rulebook amendments, so that firms can readily see how the redrafted provisions map to the current text.

- **Further streamlining opportunities.** We encourage the DFSA to treat streamlining as an ongoing exercise. In particular, the interaction between the CIR, GEN, COB, and PIB in relation to fund

31 *Id.* ¶¶ 61–63 (proposed amendment to CIL art. 10); *cf.* Markets Law 2012, art. 9 (comparable waiver and modification power).

32 *CP 173, supra* note 2, ¶¶ 64–65 (proposed amendments to CIR section 1.1, CIR section 14.1, and CIL arts. 10 and 17).

managers can still be complex for new entrants. We would welcome further guidance or consolidated "fund manager" navigation materials to support firms establishing in the DIFC.

Q17: Do you have comments on the DFSA's proposed transition period?

MFA response

MFA encourages a transition period longer than the DFSA's general three-month period, even for those elements of CP 173 that liberalise the regime or are clarificatory in nature.[33] For a limited number of proposals, however, a longer transition would be materially more workable for international fund managers and their advisers.

- **EFM regime removal – at least twelve months.** As set out in our answer to Question 11, we ask the DFSA to provide a transition period of at least twelve months in respect of the removal of the EFM regime, together with a streamlined authorisation pathway and clear guidance on the treatment of existing funds.
- **Horizontal risk management and prime-broker requirements – at least six months.** Extending horizontal risk management, borrowing-disclosure, and prime-broker requirements to all fund managers may require policy, procedure, and documentation updates. We encourage input from the prime broker community since amending trading documents requires both parties; our view is that a minimum six-month transition should give firms sufficient time to update systems and prospectuses without disturbing existing investor relationships.
- **Grandfathering existing waivers.** We ask the DFSA to confirm that existing individual waivers and modifications will be honoured through the transition period, and that firms will not need to reapply for waivers that remain relevant under the revised regime. Firms with pre-existing waivers should have the opportunity to engage with the DFSA supervision team in the ordinary course.
- **Early opt-in.** For proposals that liberalise the regime (for example, the removal of the specialist-class overlays, the master-feeder modernisation, and the employee co-investment relief), we ask the DFSA to consider permitting fund managers to opt into the new rules from the date of publication of the policy statement, without waiting for the end of the transition period.
- **Supervisory guidance in advance.** We ask the DFSA to publish any accompanying supervisory guidance (referred to at paragraph 16 of CP 173) prior to, or contemporaneously with, the final rules, so that firms have a settled compliance framework at the outset of the transition period.

33 *Id.* ¶ 66 (proposing a general three-month transition period for the reforms).

Q18: (Tokenisation)

MFA response

MFA appreciates the DFSA's continued engagement with tokenisation and distributed ledger technologies.[34] While member practices and market structures continue to evolve, MFA generally supports a regulatory framework that is technology-neutral, principles-based, and focused on investor protection, market integrity, and operational resilience. The DFSA's approach should seek to accommodate technological innovation without prescribing particular technologies, platforms, or settlement models.

Q18(A): Are there regulatory barriers or challenges to the issuance of tokenised Fund Units in the DIFC?

MFA response

MFA appreciates the framework the DFSA introduced through CP 138 in 2021[35] and agrees that limited uptake reflects broader market and legal factors, not primarily the DFSA's Rules. We identify the following areas where clarification or targeted amendment would be helpful.

MFA believes that any framework for tokenised fund units should focus on five core principles:

- **Technology neutrality.** Regulation should focus on the legal rights and obligations associated with fund units rather than the technology through which those rights are recorded or transferred.
- **Custody clarity.** We encourage the DFSA to collaborate with the SEC, FCA, and other leading regulatory authorities to provide clear guidance regarding custody, control, safeguarding, segregation, and recordkeeping requirements applicable to tokenised fund units and related digital assets. This would also ensure greater interoperability among leading global financial centres.
- **Recognition of ownership and transfers.** Market participants would benefit from clear confirmation regarding the legal effect of ownership records maintained through distributed ledger technology and the circumstances under which on-chain transfers constitute valid transfers of ownership. Clarification of the legal effect of ownership will enhance the ability of the tokenised share to be used as collateral or otherwise pledged.

34 *Id.* ¶¶ 67–78 (Part II, Section A) (inviting views on the issuance of tokenised fund Units, tokenised Money Market funds ("**tMMFs**"), and holdings of Crypto Tokens and Fiat Crypto Tokens for fund operations).

35 *See* Dubai Fin. Servs. Auth., Consultation Paper 138: *Regulation of Security Tokens* (2021), *available at* https://dfsaen.thomsonreuters.com/sites/default/files/net_file_store/CP138_Regulation_of_Security_Tokens.pdf (introducing Rules on tokenised Unit issuance, custody, and technology governance).

- **AML/CFT compliance.** Any tokenised fund framework should continue to support robust anti-money laundering, sanctions, and customer due diligence requirements that are equivalent to those applicable to traditional fund structures.

- **Cross-border interoperability.** The long-term success of tokenised fund structures will depend in significant part on whether ownership records, transfers, and custody arrangements are recognised across jurisdictions. Achieving meaningful interoperability will likely require continued coordination among regulatory authorities and standard-setting bodies internationally before broad market adoption can occur.

MFA believes a principles-based framework focused on these objectives will provide the market with greater certainty while preserving flexibility for future technological developments.

Q18(B): What are the opportunities presented by tMMFs, what regulatory challenges may arise, and how might the DFSA address them?

MFA response

Tokenised money market funds ("**tMMFs**") offer meaningful efficiencies as a collateral asset in non-cleared derivatives and securities financing transactions: near-instant settlement, transparent ownership records, and streamlined margin calls. At the same time, important legal, operational, and regulatory questions remain regarding custody, ownership, settlement finality, cybersecurity, operational resilience, and cross-border recognition of tokenised interests.

Rather than prescribing specific technical solutions, MFA encourages the DFSA to maintain a technology-neutral framework that focuses on outcomes, including investor protection, accurate ownership records, operational resilience, effective risk management, and compliance with AML/CFT obligations. The DFSA should continue to engage with the SEC, FCA, and other leading regulatory authorities to promote compatible approaches and facilitate cross-border recognition where appropriate.

Q18(C): Are there other purposes for which Funds or Fund Managers may need to hold Crypto Tokens or Fiat Crypto Tokens to support Fund operations?

MFA response

Some market participants may use digital assets or tokenised cash instruments for operational purposes, including settlement, collateral management, treasury functions, or other administrative activities. MFA believes that the regulatory treatment of such holdings should depend on their function and associated risks rather than the underlying technology used.

Accordingly, MFA encourages the DFSA to provide clear guidance regarding the treatment of operational digital-asset holdings while maintaining flexibility for future developments in market infrastructure and settlement technologies.

Q19: (Long-term Investment Funds)

MFA response

MFA welcomes the DFSA's consideration of an LTIF regime for the DIFC.[36] Private credit, infrastructure, real assets, and other long-duration strategies play an important and growing role in institutional portfolios. Middle Eastern sovereign wealth funds and regional institutional investors have a natural appetite for long-duration strategies, and MFA members are actively engaged with regional institutional capital in this respect. The EU's ELTIF 2.0 regime and the UK's Long-Term Asset Fund ("**LTAF**") framework are the appropriate international benchmarks.

Q19(A) Do you deem LTIFs as suitable for mass retail or should they only be made available to a restricted segment of the retail market?

MFA response

MFA supports appropriately structured access to long-term private-market strategies, if product design, valuation practices, governance arrangements, liquidity terms, and investor disclosures are appropriately calibrated to the investor base. We also note that LTIFs or private credit investment allocations may comprise an asset class among other broader, more liquid asset classes such as a U.S. target-date fund or an EU fund-of-funds structure. Longer-term investment strategies should not be excluded from retail or wealth-management channels solely because their underlying assets are less liquid. But access should be structured through regulated products with clear eligibility, suitability or appropriateness standards, prominent disclosure, robust governance, and redemption terms that are aligned with the liquidity profile of the underlying portfolio.

We encourage the DIFC to consider adopting a comparable approach, calibrated to local market realities. Access should be limited to retail investors who meet defined eligibility criteria, such as a minimum net-worth threshold, an experience or knowledge assessment, or advisory-only distribution. Where relied upon, the distributor at the point of sale should conduct these suitability screens.

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36 *CP 173, supra* note 2, ¶¶ 79–86 (Part II, Section B); *cf.* Regulation (EU) 2015/760 (as amended by Regulation (EU) 2023/606) (European Long-Term Investment Fund ("**ELTIF**") 2.0 regime), *available at* https://eur-lex.europa.eu/eli/reg/2023/606/oj; FCA, Policy Statement PS21/14: *A New Authorised Fund Regime for Investing in Long Term Assets* (Oct. 2021) (UK Long-Term Asset Fund ("**LTAF**") framework), *available at* https://www.fca.org.uk/publication/policy/ps21-14.pdf.

Q19(B): If it is appropriate for the DFSA to grant retail investors access to LTIFs, what protections should be included beyond those described in this CP?

MFA response

MFA supports appropriately structured access to long-term private market strategies where investor protections, valuation practices, liquidity terms, governance, and disclosures are calibrated to the investor base. We recommend the following additional protections.

- **Distributor gatekeeping.** The primary retail-investor protection should sit at the point of distribution: mandatory appropriateness or suitability assessments[37] and advised-only sales for less experienced investors.

- **Appropriate, reasonable valuation and robust disclosure.** Diligent valuation of illiquid assets, and appropriate disclosure of the assumptions and uncertainty inherent in such valuations, are essential. Fund managers should apply the DFSA's existing valuation rules and disclosure for retail-facing funds.

- **Governance.** Retail LTIFs should have an independent governing body such as a board of directors function with responsibility for oversight of valuation, liquidity management, and conflicts, at a proportionate cost. Governance requirements should remain proportionate and should not effectively preclude launch of retail-oriented private-market products because of excessive operational costs.

- **Ongoing periodic reporting.** Retail LTIFs should provide accessible periodic reporting (at least semi-annually) covering NAV, key portfolio metrics, liquidity, and any material valuation adjustments.

Q19(C): What are your views on redemptions where a Fund is comprised of assets of a long-term illiquid nature? If you deem redemptions appropriate for retail investment in LTIFs, how should they be facilitated?

MFA response

Periodic redemptions can be offered, but redemption rights must be aligned with the liquidity of the underlying strategy and clearly disclosed to investors. Misalignment of redemption rights in a fund holding illiquid assets can result in investor harm and market instability. Any DFSA framework should draw on the safeguards developed under the EU ELTIF and UK LTAF regimes and the SEC's liquidity rules.[38]

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37 *See* COB Rule 2.3.7 (DFSA "Professional Client" criteria); *cf.* MiFID II, *supra* note 18, Annex II (professional client definition).

38 *See* Regulation (EU) 2015/760, as amended by Regulation (EU) 2023/606, *available at* https://eur-lex.europa.eu/eli/reg/2023/606/oj; FCA, Policy Statement PS21/14, *A New Authorised Fund Regime for Investing in*

- **Matched frequency and notice periods.** Quarterly or semi-annual redemption windows, with notice periods of 90 days or more, are appropriate for many private credit and infrastructure strategies. Real-estate and buy-out strategies typically warrant longer periods.

- **Liquidity sleeves should not be mandated.** The DFSA should not prescribe a fixed liquid-asset percentage. The appropriate liquidity sleeve, if any, should be determined by the fund manager and governing body based on the fund strategy, redemption terms, investor composition, financing arrangements, and available liquidity-management tools. A fixed liquidity minimum may reduce returns, distort portfolio construction, act as a de facto strategy edict, and undermine the LTIF's long-term investment objectives.

- **Liquidity management tools.** The fund manager should have available a full suite of liquidity management tools: redemption gates (both fund-level and investor-level), swing pricing, anti-dilution levies, and side pockets. These tools require clear disclosure of when and how the fund anticipates their use.

- **Secondary transfer facilities.** Fund managers should be permitted (and, where practical, encouraged) to establish secondary transfer or matched-bargain facilities to give investors access to liquidity without stressing the primary redemption channel.

Q19(D): What do you view as the most appropriate way to raise awareness amongst retail investors about the features and risks of LTIFs?

MFA response

MFA suggests a layered approach:

- **Concise key-information document.** A short-form key-information document, modelled on the EU PRIIPs Key Information Document ("KID") but adapted to reflect the illiquid, long-duration nature of LTIFs (including standardised worked examples of illiquidity and valuation uncertainty), could be a cornerstone of investor communication.[39] The U.S. has also developed a short-form fund profile that contains standardized summary information.[40]

- **Standardised risk warning.** Standardised, prominent risk disclosure at the point of sale, covering illiquidity, valuation subjectivity, and the potential for redemption restrictions, should be required.

Long Term Assets (Oct. 2021), *available at* https://www.fca.org.uk/publication/policy/ps21-14.pdf; 17 C.F.R. § 270.22e-4, *available at* https://www.ecfr.gov/current/title-17/chapter-II/part-270/section-270.22e-4

39 *See* Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 Nov. 2014 on Key Information Documents for Packaged Retail and Insurance-Based Investment Products (PRIIPs), arts. 5–8, 2014 O.J. (L 352) 1, *available at* https://eur-lex.europa.eu/eli/reg/2014/1286/oj.

40 See SEC, *Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies*, 74 Fed. Reg. 4546 (Jan. 26, 2009), *available at* https://www.sec.gov/rules/final/2009/33-8998.pdf (adopting the mutual fund summary prospectus framework).

- **Encourage advised distribution for first-time investors.** For first-time retail investors in LTIFs (or comparable safeguards for execution-only channels), an initial advised interaction would help investors understand the strategy before investing.

- **Ongoing communication.** Beyond the point of sale, ongoing communications (periodic reporting, investor letters, notifications of material events) should be written for a retail audience, with plain-English explanations of illiquidity, valuation, and any use of liquidity management tools.