

## Why requests to redeem units in collective investment undertakings “at a known price” have no merit

I occasionally receive requests for mediation which, because of account agreement regulations or market rules, have no merit from the outset. In other words, they clearly reflect a lack of knowledge of the current regulations applied by market professionals. There is therefore no need to ask these professionals to provide any explanations.

When faced with such a request, I do my best to educate. Rather than simply reiterating regulations, I seek to clarify them or explain why there was no deficiency, as with this month’s case.

### The facts

Ms P. held 100 units of a collective investment undertaking (CIU) and, on 29 January 2016, requested redemption of her entire investment. As the units were valued on a six-month basis, her request was executed based on the net asset value<sup>1</sup> on 30 June 2016, corresponding to EUR 106.77. Ms P. therefore received a payment, net of social charges, of EUR 10,649 on 5 September 2016.

Nevertheless, in an email dated 1 March 2016, i.e. after her redemption request, the CIU’s management company sent Ms P. an activity report which showed that her units were valued at EUR 11,359.

Ms P. sought my assistance to obtain an additional payment from the management company of EUR 709.44, reflecting the difference between the two amounts.

### The analysis

First, it should be noted that the net asset value of a CIU reflects the value of the assets held in its portfolio. The unit’s subscription and redemption price is based on this value.

In this instance, Ms P. believed that her units should be redeemed based only on the known price indicated in the activity report she had received. However, as soon as I began to review the case, it immediately became clear that the CIU’s management company had executed Ms P.’s redemption request in accordance with the prospectus, which states that the redemption price would be equal to the first net asset value calculated for the unit after a request is received.

In general, forward pricing is used for net asset values. This means that when investors subscribe and/or redeem their units:

- they must comply with the times and/or day provided for in the fund’s prospectus for order subscriptions and/or redemptions;
- the order will be executed, once the orders have been centralised, at the next net asset value, calculated after this centralisation cut-off time. They therefore do not know, when they make their subscription and/or redemption request, what the purchase and/or sale price will be.

The economic rationale for the rule requiring the use of forward pricing to redeem units is simply that the management company must sell some of the CIU’s assets in order to pay back the value of the units, which is why the previously known price is provided for informational purposes only.

<sup>1</sup> Net asset value, i.e. the price at which a CIU unit is bought or sold, is obtained by dividing the aggregate value of the net assets by the number of units.

As Ms P. requested the redemption of all of her units on 29 January 2016, i.e. after 30 December 2015, the date of the previous net asset value calculation, the request was honoured, in accordance with the prospectus, on the basis of the net asset value on 30 June 2016, corresponding to EUR 106.77 per unit.

The known net asset value was therefore provided for informational purposes only and could under no circumstances be the net asset value used to execute Ms P.'s request on 30 June 2016.

## **The recommendation**

Investors are not always able to view their disputes objectively. My role is therefore to clarify these tricky points and to explain, in an educational way, why I did not contact their financial intermediary.

In light of all the information I received about the case, it was clear to me that Ms P.'s redemption request was handled in accordance with the CIU's prospectus.

I therefore explained to Ms P. that, as forward pricing was used for the net asset value of her CIU units, her redemption order had been executed based on the subsequent net asset value and not on the net asset value calculated prior to her order, and that it could not have been executed in any other way.

## **The lesson to be learned**

Subscribers of units must consult the prospectus for the CIUs that they hold, as it always sets out the subscription and redemption conditions.

For retail CIUs, as the net asset value is calculated at least once a month, or even daily, investors should also be attentive to centralisation cut-off times (see the Ombudsman online diary for 2 February 2016 "Avoiding confusion over UCITS orders centralisation cut-off times").

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