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SCPIs: unlike orders to sell units, redemption requests do not have a validity period and do not have to be renewed

A unitholder may exit an SCPI by making a redemption request or by selling their units to a third party. However, it is important to distinguish between these two exit methods: unlike a sale order, a redemption request does not expire, as I will explain in this month's diary.

Facts

Ms X told me that she held units in an SCPI (real estate investment company) and had made a redemption request in October 2023.

As her redemption request had not been executed after four months, Ms X contacted the investment management company in February 2024. The latter confirmed that her redemption request had indeed been recorded in the redemption register, but that it had not been possible – for the time being – to execute it, given market conditions.

The institution further told her that redemption requests were fulfilled in chronological order of entry in the register and at the last known redemption net asset value at the time of the sale.

Not satisfied with the response given and in need of cash, Ms X contacted me seeking execution of her request to redeem her SCPI units.

Investigation

I questioned the investment management company, which confirmed that the redemption request had indeed been recorded in October 2023 and was still pending execution.

Although sympathetic to Ms X's need for liquidity, the institution then told me that this "redemption order" (as it called it) would be executed when there were subscription requests that could act as counterparty to it.

Finally, the professional pointed out to me that Ms X's "redemption order" was valid for 12 months. At the end of this period, Ms X would therefore have to send a new "redemption order" if she still wished to dispose of her SCPI units.

Recommendation

I carefully examined all the information I had collected.

First of all, I reminded Ms X that SCPI units constitute a collective investment product invested in unlisted real estate, and therefore carry a liquidity risk, which is clearly indicated in the documentation of the SCPI in question ([for additional information see my February 2024 diary](https://www.amf-france.org/en/amf-ombudsman/ombudsman-online-diary/latest/scpi-redemption-request-even-if-order-may-be-executed-within-indefinite-period-time). URL = [https://www.amf-france.org/en/amf-ombudsman/ombudsman-online-diary/latest/scpi-redemption-request-even-if-order-may-be-executed-within-indefinite-period-time]).

I then told Ms X that the SCPI's quarterly information newsletters^[1] provided information on the number of units pending redemption (i.e. awaiting a counterparty) and the number of redemptions executed during the reference period. In the light of this information, I did not consider the delay of which Ms X was complaining to be abnormal.

Consequently, I informed Ms X that I believed that her redemption request was being handled in accordance with the SCPI's documentation and that the delay in executing her request was due to the illiquidity of the units.

However, after examining the file, I noted that the terminology used by the professional could lead to confusion. In fact, to exit an SCPI, a unitholder either submits a redemption request to the investment management company (on the primary market) or a sell order (on the secondary market, where investors buy and sell)^[2].

It should be noted that, generally speaking, SCPIs are incorporated with variable capital^[3], i.e. the amount of capital can vary depending on the entry or exit of unitholders, without it being necessary to change the amount of capital stipulated in the SCPI's articles of incorporation.

However, the SCPI's articles of incorporation may include a clause suspending the variable nature of the capital, which may be invoked in the event of redemptions being suspended which would lead to a lack of liquidity.

In this case, the primary market is suspended and a secondary market is organised, through the matching of buy and sell orders, the frequency of which is set out in the offering document. As a result, a unitholder wishing to dispose of their SCPI units must send the investment management company an order for sale on the secondary market, rather than a redemption request.

In the case in question, Ms X had not sent a 'redemption order', but rather a redemption request, which should therefore remain validly recorded in the redemption register beyond the 12-month period.

In fact, under the regulations applicable to SCPIs^[4], I noted that redemption requests made to the investment management company do not have a validity period, unlike sell orders made on the secondary market.

I therefore alerted both Ms X and the investment management company to the fact that, as her request was valid for an indefinite period, she did not need to submit a new redemption request to the company for the same SCPI units. A new request would mean she would lose her place in the redemptions register as requests are entered in chronological order.

In response, the professional acknowledged that this was indeed an error and that, in such a case, the investor did not need to renew their request.

Lesson to be learned

There are two lessons to be learned from this dossier:

For investors:

Care must be taken as regards the instructions given to the investment management company. More specifically, in terms of exiting an SCPI, a distinction must be made between:

1 • A redemption request:

- A unitholder may exit an SCPI by submitting a request to that effect to the investment management company, which will redeem the units by offsetting these against funds raised by new subscriptions.
- The redemption price is determined on the basis of the subscription price^[5], less the subscription commission^[6].
- Redemption requests are executed in chronological order of entry in the register, with the allocation of a rank, provided that there are marching subscription requests.
- A redemption request does not have a validity period.

2 • A sell order:

- A sell order enables the investor to dispose of their SCPI units to a third party on the secondary market organised for a fixed-capital SCPI, or in the event of the suspension of the variability of capital in the case of a variable-capital SCPI.
- The sale price is determined by matching supply and demand.
- A sell order is valid for 12 months, which may be extended by a maximum of 12 months at the investor's express request^[7]. It should be noted that a buy order may specify a validity period freely determined by the unitholder^[8].

For the investment management company:

The application of a validity period to SPCI redemption requests is contrary to the legal liquidity mechanism provided for in Article L. 214-93 of the Monetary and Financial Code.

If an investment management company notes that the redemption requests held in the register for more than 12 months represent at least 10% of the units issued, it must immediately inform the Autorité des Marchés Financiers of this and convene an Extraordinary General Meeting within two months of this observation in order to take any appropriate action.

The only two situations in which a redemption request entered in the register would cease to be valid are:

- if the unitholder revokes their redemption request;
- in the event of the variable nature of the SCPI's capital being suspended. This situation may, in particular, arise if the redemption requests that have not been fulfilled within 12 months account for at least 10% of the units and, pursuant to Article L. 214-93 of the Monetary and Financial Code, the Extraordinary General Meeting decides, as an appropriate measure, to suspend capital variability and to set up a market by matching orders.

Keywords

COLLECTIVE INVESTMENTS

[1] For more information on compulsory communications to investors see AMF Instruction 2019-04, and Articles 422-226 and 422-228 of the AMF GR.

[2] Both these exit methods require the involvement of the investment management company. It should be noted, however, that the investor also retains the option of selling over-the-counter, i.e. finding their own buyer, who may be subject to an approval clause under the SCPI's articles of incorporation.

[3] When the SCPI has fixed capital, capital subscription is closed apart from any capital increases. Exit from the SCPI can therefore only take place on the secondary market.

[4] By reading Article L. 214-93 of the Monetary and Financial Code in conjunction with Articles 422-205 (on disposals) and 422-218 (on redemptions) of the AMF General Regulation.


[5] The subscription price is calculated on the basis of the SCPI's reconstitution value, by the General Meeting of Shareholders.

[6] It should be noted that in order to contribute to the fluidity of the unit market, the General Meeting of Shareholders may decide to create and endow a redemption fund, pursuant to Article 422-231 of the AMF General Regulation. If the redemption request is fulfilled by charging the redemption fund, the price offered may differ from the cleared redemption price, but will be between the realisable value and this same value less 10% (unless otherwise authorised by the AMF), in accordance with Article 422-230 of the AMF General Regulation. The limits and criteria for the use of the redemption fund are decided by the General Meeting.

[7] Article 422-205 of the AMF GR.

[8] Instruction AMF - DOC-2019-04, pt 2.1.

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