

GENERAL SYNOD
DRAFT CHURCH FUNDS INVESTMENT MEASURE

Policy Note

1. This note provides the policy context for the draft Church Funds Investment Measure.

Background

2. The CBF¹ Church of England range of funds managed by CCLA² were established under the Church Funds Investment Measure 1958. The six current funds in operation - with total assets of over £3bn managed on behalf of over 11,500 Church investors including many Parochial Church Councils, cathedral chapters and diocesan charities - continue to be structured as Unregulated Collective Investment Schemes.
3. The Central Board of Finance was originally the trustee for these funds. This role passed to the Archbishops' Council trustees on the Council's establishment in 1999 and this role was taken on by CBF Funds Trustee Limited (CBFFT) in 2007.
4. Historically most pooled investment funds operated by investment managers for charity investors were structured as Common Investment Funds (CIFs), a structure which was first introduced by the Charities Act 1960. These are registered charities and as such are regulated by the Charity Commission but, in common with the CBF Church of England funds, are not regulated or authorised by the Financial Conduct Authority (FCA) - the principal UK body for regulation of investment products³. Under the provisions of the Church Funds Investment Measure 1958, the CBF Church of England funds could not become CIFs.
5. After considerable consultation, a new Charity Authorised Investment Fund (CAIF) structure for charity investment vehicles was established in 2016. The principal advantages of this structure for charity investors are twofold. Firstly CAIFs are jointly regulated by the Charity Commission and the FCA, offering investors greater protection and reassurance that the funds are regulated and overseen in accordance with industry best practice as well as maintaining their charitable status. Secondly, VAT is not charged on investment managers' fees resulting in a modest cost benefit for charities investing in such funds.

¹ Central Board of Finance

² Church, Charities and Local Authorities Investment Management Limited.

³ But note that CCLA itself as an investment manager is authorised and regulated by the FCA and is subject to the FCA approved persons regime.

6. Since 2016 many investment managers have moved pre-existing CIFs to CAIFs and some new funds established by investment managers have been created as CAIFs. It is not possible to convert the CBF Church of England Funds to CAIFs under the framework of the Church Investment Funds Measure 1958 as it stands, so Church investors are currently unable to benefit from the advantages set out above.

Purpose of the draft legislation

7. Representatives of CCLA and the CBFFT have approached the Archbishops' Council proposing that the CBF Church of England funds should be converted to Charity Authorised Investment Funds (CAIFs). The legislative changes required to enable this are creating a new statutory power for CBFFT as the trustee to make a scheme of arrangement transferring the assets from each of the CBF funds to a newly established CAIF and any consequential or ancillary arrangements such as the winding up of the old funds.
8. Recognising that many PCCs, cathedral chapters and diocesan charities invest in at least one of the CBF Church of England funds, the proposal has been aired with the Inter Diocesan Finance Forum⁴ where it was welcomed as a sensible and helpful development.
9. Taking account of these views and those of its Finance Committee, the Archbishops' Council has agreed to sponsor legislation which would enable CCLA to restructure its range of CBF Church of England Funds to a CAIF structure. The Council noted that CCLA also plans to convert its COIF⁵ Charity funds, which are structured as CIFs, to the CAIF structure.
10. If the legislation proceeds, CCLA will engage with all current investors in the CBF Church of England Funds to explain the changes it wishes to propose in the light of the new legislation. Any such changes will only proceed if sufficient investors approve them. CCLA plans to communicate more widely to eligible investors through dioceses.
11. The conversion of the CBF Church of England funds to CAIFs would open up other possibilities relating to the future management of the funds and these are set out in GS Misc 1369.

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⁴ The IDFF comprises DBF Chairs, Diocesan Secretaries and one other person from the diocese who is often the Director of Finance or equivalent but may be another member of the diocesan staff, DBF or General Synod. It meets twice a year.

⁵ Charity Official investment Fund