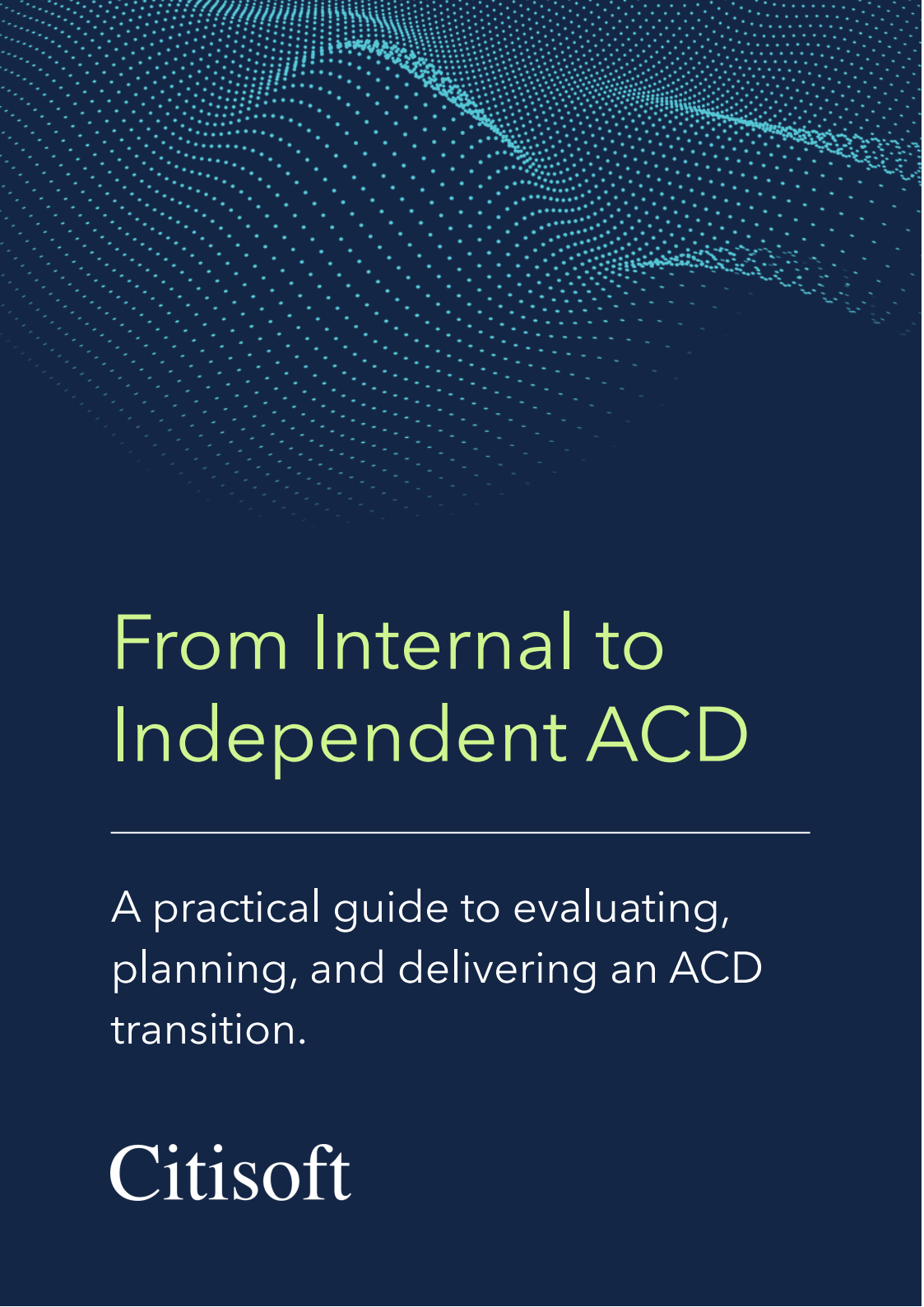




From Internal to Independent ACD

A practical guide to evaluating, planning, and delivering an ACD transition.

Citisoft

For many UK asset managers, transitioning to leverage independent Authorised Corporate Director (ACD) responsibilities can provide access to specialist governance, regulatory oversight, and operational expertise without the need to maintain an in-house ACD structure. However, transitioning from an internal ACD model requires careful consideration of the operating model impacts, governance responsibilities, service provider relationships, reporting obligations and the people involved in supporting the ACD today.

The most successful transitions involve:

- Clear ownership and accountability
- Realistic assessment of current capabilities
- Thorough due diligence
- Well-defined governance arrangements
- A structured onboarding and oversight programme

This guide outlines some of the considerations investment management firms should take to assess their readiness for an ACD transition programme. Use it to identify potential gaps, validate key decisions, and guide discussions with internal stakeholders and prospective ACD providers.

While not exhaustive, it covers the major workstreams typically encountered during an ACD transition initiative, from target operating model design through to ongoing oversight and governance. The steps are based on the key stages involved in moving from an internal ACD to an independent ACD model.

Why firms reconsider their internal ACD model

Many asset managers established internal ACDs when it was the prevailing market model. However, increasing regulatory expectations and greater focus on robust, independent oversight have prompted firms to reassess whether their existing governance arrangements remain fit for purpose. Independent ACD providers have matured significantly in recent years, offering dedicated governance, risk and compliance capabilities that can be difficult for individual firms to maintain at scale.

As a result, firms are increasingly evaluating whether an internal ACD remains the most effective model for supporting long-term governance objectives, regulatory obligations and business growth.

Understanding the financial impact of outsourcing your ACD

The balance sheet implications of moving an ACD may be quite significant. An internal ACD is subject to a broad range of operating costs, such as directors' fees, cost of operations and oversight, but these will be replaced by fees charged by the outsourced provider. In addition, moving to an independent ACD will change the Regulatory Capital requirement by moving that responsibility from the asset manager to the outsourced provider, therefore freeing up working capital.

Finally, a large external ACD may be able to negotiate lower service provider fees due to its scale on items such as fund administration and custody fees, etc., which will help protect the total expense ratio (TER) on impacted funds.

Related blog | Independent or Internal ACDs: What's the smarter choice for your fund governance?

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What changes when moving to an independent ACD?

Before assessing providers, firms should first understand which responsibilities will remain in-house, and which will transfer to the independent ACD.

While oversight responsibilities move to the ACD, the investment manager continues to play a critical role in providing information, participating in governance processes and demonstrating that investor outcomes remain appropriate.

Activities Typically Retained by the Asset Manager

- Portfolio management
- Distribution activities
- Client relationships
- Product strategy
- Fund growth initiatives

Activities Typically Performed by the Independent ACD

- Fund governance
- Regulatory oversight
- COLL compliance
- Assessment of Value
- Fund risk oversight
- Board governance
- Consumer Duty monitoring

Shared Responsibilities

Areas requiring close collaboration typically include:

- Management information
- Risk reporting
- Breach reporting
- Escalation processes
- Regulatory change management
- Governance forums

Common concerns about transitioning to a independent ACD model

Concern	What this means in practice	Reality check
Loss of control	The ACD is legally responsible for fund governance and investor protection. While it ultimately has the authority to act when concerns arise, replacing an investment manager is an exceptional measure and typically follows extensive engagement and remediation efforts.	Investment managers generally retain the underlying commercial relationships, distribution capability and investment expertise that underpin the fund's success.
Conflicts between the ACD and investment manager	Differences can arise around areas such as assessment of value, risk appetite or governance decisions.	The ACD has ultimate responsibility, but effective hosted models rely on collaboration, transparency and clearly defined escalation processes.
Weak management information	The new ACD may identify gaps in management information, reporting controls or governance evidence during onboarding.	This is one of the most common findings and should be addressed through a focused remediation workstream prior to go-live.
Regulatory delays	The appointment of a new ACD typically requires FCA engagement and updates to supporting documentation.	Regulatory approval is generally a structured process, although timings can vary depending on the complexity of the fund structure and readiness of supporting documentation.

Are you ready to transition your ACD?

Before initiating a provider selection exercise, firms should assess their readiness across several areas:

Governance ● Operational Processes ● Data and Reporting ● Documentation

Designing the Target Operating Model

The investment manager first decides:

- Whether it wants a hosted/independent ACD model.
- Which activities it will retain (portfolio management, distribution, client relationships).
- Which activities the ACD will perform (fund governance, regulatory oversight, COLL compliance, board oversight, assessment of value, fund risk oversight, etc.).

The ACD remains legally responsible for operating the fund and protecting investors, even where portfolio management is delegated to the investment manager.

Functions commonly overlooked in ACD transitions

Transition planning often focuses on governance and regulatory approval. However, a successful transition requires a detailed understanding of all activities currently supporting the ACD.

The following activities can sometimes sit outside the immediate ACD team and therefore risk being overlooked during planning.

- Factsheet production
- Data dissemination
- Regulatory reporting
- Client money processes
- Prospectus maintenance
- KID production
- CCI documentation
- Performance reporting
- Platform connectivity
- TCFD
- SDR
- Reg Cap Provision

Selecting and onboarding an independent ACD

A formal RFP is typically required when transitioning from an internal ACD to an independent model. The FCA has specifically highlighted the importance of robust governance, oversight and due diligence by host AFMs/ACDs.

1. Vendor Selection

Assessment of potential ACD providers against requirements identified in the target state.

4. Commercial and Legal Agreements

Key agreements include:

- ACD Agreement
- Investment Management Agreement (IMA)
- Delegation Agreement
- Service Level Agreements
- Distribution Agreement
- Co-Manufacturer Agreement
- Reporting and escalation protocols

2. Due Diligence

- Regulatory permissions
- Financial strength
- Governance framework
- Risk and compliance capabilities
- Oversight model for delegated investment managers
- Technology and reporting
- Experience with the relevant asset classes

3. Gap Analysis

The proposed ACD will normally perform a review of the following aspects. A remediation plan needs to be agreed upon to close any gaps before onboarding.

- Investment process
- Risk management framework
- Liquidity management
- Valuation procedures
- Investment restriction monitoring
- Operational controls
- Consumer Duty arrangements

5. Regulatory Engagement

Depending on the structure:

- Fund documentation may need amendments
- Prospectus and KIIDs/KIDs may require updates
- Depositary and administrator consents may be needed
- FCA notifications or approvals may apply

Selecting and onboarding an independent ACD

Transition and Implementation

6. Operational Onboarding

The ACD establishes:

- Compliance monitoring
- Board reporting
- Breach reporting
- Risk reporting
- Liquidity oversight
- Assessment of Value process
- Consumer Duty monitoring

In addition to implementing functional processes, a key challenge is establishing connectivity between the investment manager and the ACD. Tackling this early and conducting comprehensive testing will allow these functional processes to run smoothly from day 1.

7. BAU Ongoing Oversight

Once appointed, independent ACD arrangements typically include:

- Monthly or quarterly oversight meetings
- Investment performance reviews
- Liquidity reviews
- Compliance monitoring
- Fund board meetings
- Ongoing due diligence on delegated investment managers

The investment manager remains responsible for providing the management information and evidence required to support ongoing oversight activities.

Success is therefore determined not simply by completion of the transition programme but by the quality of the ongoing governance relationship.

Transitioning from an internal ACD to an independent ACD model requires clear ownership, robust due diligence and a realistic view of the governance, operational and reporting work needed before cutover.

By assessing readiness early, firms can identify potential gaps, reduce transition risk and put the right oversight model in place from the outset.

If you are considering a move to an external ACD model, Citisoft can support you to assess readiness, define the target operating model and plan the transition with confidence.

Get in touch to discuss how we can enable your ACD transition programme.

Important note

This guide is intended to provide an indicative overview of the key steps involved in transitioning to an independent ACD. It is not exhaustive, and the precise transition approach will vary by firm. Specific dependencies, requirements and the onboarding process of the selected independent ACD service provider will need to be considered when developing a detailed transition plan.

About Citisoft

Since 1986, we've solved complex technology and operations challenges for the investment management industry. With a team of dedicated consultants across North America and EMEA, we're committed to working with asset managers and asset servicers globally on projects of every scope. From guiding complete business transformation programmes to on-the-ground delivery, our team is equipped to fulfill any strategic or tactical need. To learn more about our Advisory and Delivery Services, contact us at insights@citisoft.com or visit us at citisoft.com.

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