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CIS & Product Regulation Department
The Financial Services Authority
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Our ref: LA18

Dear Mr Brown

Single Pricing of Collective Investment Schemes: A Review

The Consumer Panel welcomes the opportunity to comment on this discussion paper. Our response to the consultation is attached.

I look forward to seeing the next stage of this consultation process.

Yours sincerely,



Colin Brown
Chairman
FS Consumer Panel

cc. Consumer Panel

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RESPONSE BY THE FINANCIAL SERVICES CONSUMER PANEL

SINGLE PRICING OF COLLECTIVE INVESTMENT SCHEMES: A REVIEW

The Consumer Panel welcomes the opportunity to comment on this discussion paper and has considered the five options set out in the document.

Q 2: Do you agree with our summary of the impact and effectiveness of the single-pricing regime to date? On what have you based your evidence?

The Panel is not in a position to state what impact the current position has on the market. Paragraph 6.11 of the paper states that FSA is still collecting evidence. The evidence so far is that the effects of dilution are quite small, which does not suggest a need for urgent action.

Q4: In the context of experience to date, what relative weight would you attach to the four objectives?

We understand that in most cases dilution has very little effect on retail investors. If this is the case, then we do not think that the difficulty of explaining dilution levies to the retail investor should play a large part in the decision-making. 'Fairness' is also particularly difficult to judge in a market where large investors already benefit from considerable economies of scale. Without more evidence on the effect of dilution, it is difficult to judge the significance of any cross-subsidy. However, we do place great weight on transparency.

Q7: Which of the Options 1 to 5 is, in your view,

The Panel favours Option 1 - enhancing the disclosure *most likely to change outcomes for firms and consumers in a helpful direction* requirements in the existing regime. The Panel agrees with the arguments set out in paras 7.20 - 7.32, which set out why prohibiting or requiring the charging of dilution fees, or taking an minimalist approach would be inappropriate and against the interests of consumers. However, we believe that the case for Option 5 has not been made, for the following reason. Option 5 would, in the Panel's view be the least transparent option as the costs would be obscured, it would be susceptible to error or abuse, and could result in price distortion.

In addition, in order to guard against error or abuse, greater oversight would be necessary from both the FSA and trustees. Although a dilution levy is also imposed at the discretion of the manager, the requirement to disclose it is a check against abuse.

The Panel also questions whether a swinging price will achieve a great advance in fairness, given the difficulties of quantifying dilution. In addition, the Panel notes that under the current system dilution charges are sometimes not charged. Therefore under Option 5 smaller investors are likely to face additional costs for an uncertain benefit and a loss in transparency.

Q8: Do you consider that rules or guidance limiting the boundaries of any adjustment to the mid-market price, together with understandable disclosure to consumers about how this is done, would enhance or weaken the case for Option 5?

We disagree with the argument against Option 1 that attempts to improve disclosure are unlikely to be helpful to ‘investors who do not understand what is currently disclosed’. This seems to run contrary to the FSA's general approach to information disclosure, which is fundamental to the conduct of business regime, and prejudices the outcome of the current disclosure review. It is the Panel's view that improved disclosure can make the costs of transactions better understood and that Option 1 is inherently more transparent than Option 5, because it separates out the costs of the transaction.

The consumer research commissioned by FSA finds that ‘Consumers also felt that it was their right to be given this information and then if they chose to read it or not, that was their business’. Dilution is a difficult concept to explain, whichever option is chosen and we do not see that it will be any easier to explain a swinging price than a dilution levy. Indeed there may be a greater reputational risk to the industry if a ‘swinging’ price is misunderstood.

Q9 Do you consider that it is necessary to ban or restrict box holdings or (if box holding are allowed) to impose additional price parameters?

Q10 What are your views about continuation of the historic pricing option?

The Panel does not have sufficient information on which to make a judgement. We hope that any further consultation will explore these issues in further detail.