

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

Retail Distribution Policy
Strategy and Competition Department
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

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By email: PRIIPsCfI@fca.org.uk

Dear Sir/Madam

Financial Services Consumer Panel (the Panel) response: PRIIPs Regulation Call for Input – initial experiences with the new requirements

The FCA has gathered a lot of evidence that, despite the current requirements in the COLL rules and the principles, consumers face lack of clarity and incomplete information when trying to find the right investment product.¹

Yes, there are problems with the PRIIPs KID, but it is disappointing that the Call for Input does not ask for ideas from the industry about how the regulations could be revised to improve transparency. We urge the FCA to push the industry to come up with pragmatic solutions to the identified issues rather than accede to calls for a withdrawal of the PRIIPs requirements.

The FCA should undertake consumer research before it changes the rules. Otherwise there is a risk of acting on anecdote rather than systematic evidence. We have made a few suggestions for potential solutions to some of the issues.

It is worth noting the strengths and weaknesses of the PRIIPs regulations.

Strengths

- The standardised template for the disclosure of information increases the comparability of economic of the economic and legal features of different products. The KID layout of information is the same for all PRIIPs.
- This helps investors to compare the performance and cost of different products. This is a major step in the right direction.
- Investors should not have to refer to marketing documents. In fact, KIDs should be clearly distinguishable from any marketing communications.

¹ <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-32.pdf>,
<https://www.fca.org.uk/publications/market-studies/ms17-1-investment-platforms-market-study>

- Manufacturers are required to disclose all costs underlying the PRIIP, split into the different types, so that costs with different impacts can be identified. We do not know whether this resolves the myriad of costs and charges disclosure issues. However, it is an important move towards much-needed transparency.
- PRIIP KIDs should be updated at least once a year, ensuring that information relied on by investors is current. In addition, manufacturers need proactively to identify situations which require updates to the KIDs.
- KIDs must be delivered to investors before they are bound by any contract and have sufficient time to understand and consider the information provided.
- PRIIP KIDs display warning signs under specified circumstances (for example where a product is complex, or economic information does not capture features like liquidity, etc.) to encourage investors to assess the product with more caution.

Weaknesses and potential remedies

The main weakness of the PRIIP rules appears to be the methodology for performance calculations. For a majority of PRIIPs the performance measures appear overly optimistic and so have the potential to mislead consumers. The FCA has allowed manufacturers who are concerned about the performance metrics in their KIDs to put the calculations in context and to set out their concerns for investors to consider. However, this is a short-term fix which may lead to consumer confusion. Following discussion with industry experts, we offer some initial ideas for the FCA to explore.

1. **Historical performance data:** The overly optimistic performance observed in some KIDs is a reflection of the strong returns of global markets over the last five years – the period covered by historical data underlying the PRIIPS performance calculations. The FCA could review whether a level of flexibility in the rules would be helpful here so that, along with an obligation on firms to act in good faith and with a duty of care to consumers, each manufacturer could consider how far back to go to cover a full cycle for each product.
2. **Calculation methodology:** Instead of determining performance on an absolute basis (i.e. based on past performance of the specific PRIIP only), performance over a period shorter than a full economic cycle could be calculated relative to reference instruments. One option could be cash, which provides market-consistent returns at low risk, and, say, (riskier) global equities. Each PRIIP, for up to 5 years' history, could be benchmarked against the reference instruments and then the history of the reference indices can be projected based on, as an example, 30 years' performance, overlaid with the specific PRIIP's relative performance.

The Panel believes the FCA should encourage the industry to develop similar options, and discuss these and our suggestions with stakeholders before changing the PRIIPs requirements.

Yours faithfully

Sue Lewis
Chair, Financial Services Consumer Panel

There are a few questions the Panel would like to respond to particularly:

Q4: If you are an investor (or represent investors), what has been your experience with disclosures of transaction costs? Have you found these disclosures helpful in making your investment decision? Conversely, have you come across disclosures of costs which you found difficult to understand, or which you felt unable to rely on? Please provide supporting examples and evidence.

The FCA should conduct its own research to get a real grasp of the issues consumers face when presented with information about costs. If example portfolios have already shown calculation inaccuracies in transaction cost reporting, then the impact of these errors on consumers should be tested.²

The research published by the FCA in both the Investment Platforms Study and in Occasional Paper 32 indicates that consumers value clear disclosure of costs in their investment decision-making. This Call for Input states that *'over time, greater familiarity with transaction costs should encourage consumers to better understand the transactions being carried out on their behalf, and the related costs,'*³ but what consumers really want to know is how much they are paying, and for what.

The Panel's research into online investment and advice services⁴, indicated:

- Consumers need costs presented using simple language, free from industry jargon.
- They find pounds and pence are easier to deal with. Our research showed that only 1 of 15 consumers could calculate what a £1,000 online investment would cost them in pounds.
- Transparency is not the same as clarity.

We support the PRIIP KID enabling greater comparability across the market but it cannot achieve this aim if costs are misleading or unclear within them.

Q8: Have consumers who are using KIDs to make investment decisions encountered any issues with the performance scenarios presented to them?

As above, the FCA should conduct its own research into this question.

² <https://www.fca.org.uk/publication/call-for-input/priips-regulation-initial-experiences-with-the-new-requirements.pdf> pg13

³ <https://www.fca.org.uk/publication/call-for-input/priips-regulation-initial-experiences-with-the-new-requirements.pdf> pg14

⁴ https://www.fs-cp.org.uk/sites/default/files/final_online_investment_and_advice_services_summary_report_bm_30_regulator_doc_05_12_2016.pdf