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Dear Sir / Madam,

Enhanced disclosure of charges and transaction costs – technical consultation

This is the Financial Services Consumer Panel's response to the Investment Association's technical consultation on enhanced disclosure of charges and transaction costs.

The problems of cost opacity in the management of retail investment funds have long been a concern of the Panel. Small changes in costs and charges can have a large impact on the returns for investors in the fund. In March 2016, we published a paper[1] which proposed a data standard for pension funds and their providers. We therefore welcome this work from the Investment Association and believe the proposals in the consultation are a good first step.

Q1: Will the information contained in the templates along with the associated disclosures in Part IV of the Code provide pension scheme trustees and IGCs with the cost information they need to facilitate 'value for money' judgements?

The templates appear to cover all the costs, and the proposed Code should improve transparency for intermediaries and offer a consistent approach to reporting of fund costs.

However, Trustees and IGCs will still need to use the newly disclosed cost information to compare the costs paid by their scheme against other providers of similar products in the market and then review and challenge the cost information against the specific fund objectives, benchmarks and returns to assess whether a fund manager is delivering value for money. The new disclosure does not eliminate conflicts of interest, and Trustees and IGCs will also need to check that costs have been appropriately allocated to the fund, when they should have been borne by the fund manager. They will need help to do this and we look forward to the FCA and TPR providing guidance on how this will be achieved.

Q2: Does the information in the Code provide MiFID distributors with the information they need to meet their cost disclosure obligations to clients?

No comment

Q3: Does the information in the Code provide PRIIP manufacturers with the cost information necessary to create the KID?

No comment

Q4: Is the approach within the template proportionate? Should there be further granularity in relation to asset classes and implicit costs?

We believe the proposed approach is a good first step towards better disclosure. We look forward to seeing further developments from the industry along the lines suggested in the FCA Asset Management Market Review.

We are pleased that the Investment Association is proposing that the Code is used by industry as best practice for fund cost disclosure and that Investment Association members are supportive of the Code. We think the FCA and TPR need to do further work to identify the technology and third party providers that will support the delivery of the data in a form that can be used by institutional and other investors responsible for large pools of assets across

[1] https://www.fs-cp.org.uk/sites/default/files/fscp_final_discussion_paper_investment_costs_20160229_4.pdf

multiple managers to create an aggregate view of fund costs. It is essential that third party providers are independent of the asset management industry, and yet are mindful of the regulations that asset managers, IGCs and Scheme Trustees must work to, which is why we believe this additional work should sit within the remit of the two relevant Regulators.

Q5: Are there specific areas of cost disclosure that require additional consideration?

Managers should have a duty to be transparent about costs and charges, and how they are calculated. Fund governance bodies should be comfortable that managers have the right technology to record and track costs.

In 2014, the Panel recommended a single charge to retail investors, with the pricing risk borne by the asset management company. We still believe that should be the long-term goal.

Part of the rationale for a single charge was that it would introduce the 'right' kind of competition into asset management. It would be transparent and provide investors and their advisers with a genuine view of costs and a more meaningful method of comparison, driving competition that worked in consumers' interests.

A single charge regime would also place investment managers at risk for the decisions they make and strengthen accountability, not only to the investor but also to the firms and pension schemes that employ them. Investment managers would be incentivised to look for the best deal for the myriad of services that they currently just charge to the fund, and so don't need to think about as the investor pays.

Q6: What would be the best framework for ongoing development and maintenance of the Code?

We believe the proposed Code is a step in the right direction towards transparency and disclosure of fund manager costs but there is a lot of work still to be done to identify the optimal framework for trustees and IGCs to account for value for money in fund management on behalf of scheme members.

The Code should be encompassed into the Pensions Regulator and FCA regulation but should remain flexible so that it can develop over time. Asset managers must not be left to self-regulate or self-certify.

We would like clarity over who will maintain the Code and check the data. If a separate organisation is to be set up to do this, it must be completely impartial and have no ties to individual asset management companies.

Yours faithfully

Sue Lewis
Chair, Financial Services Consumer Panel