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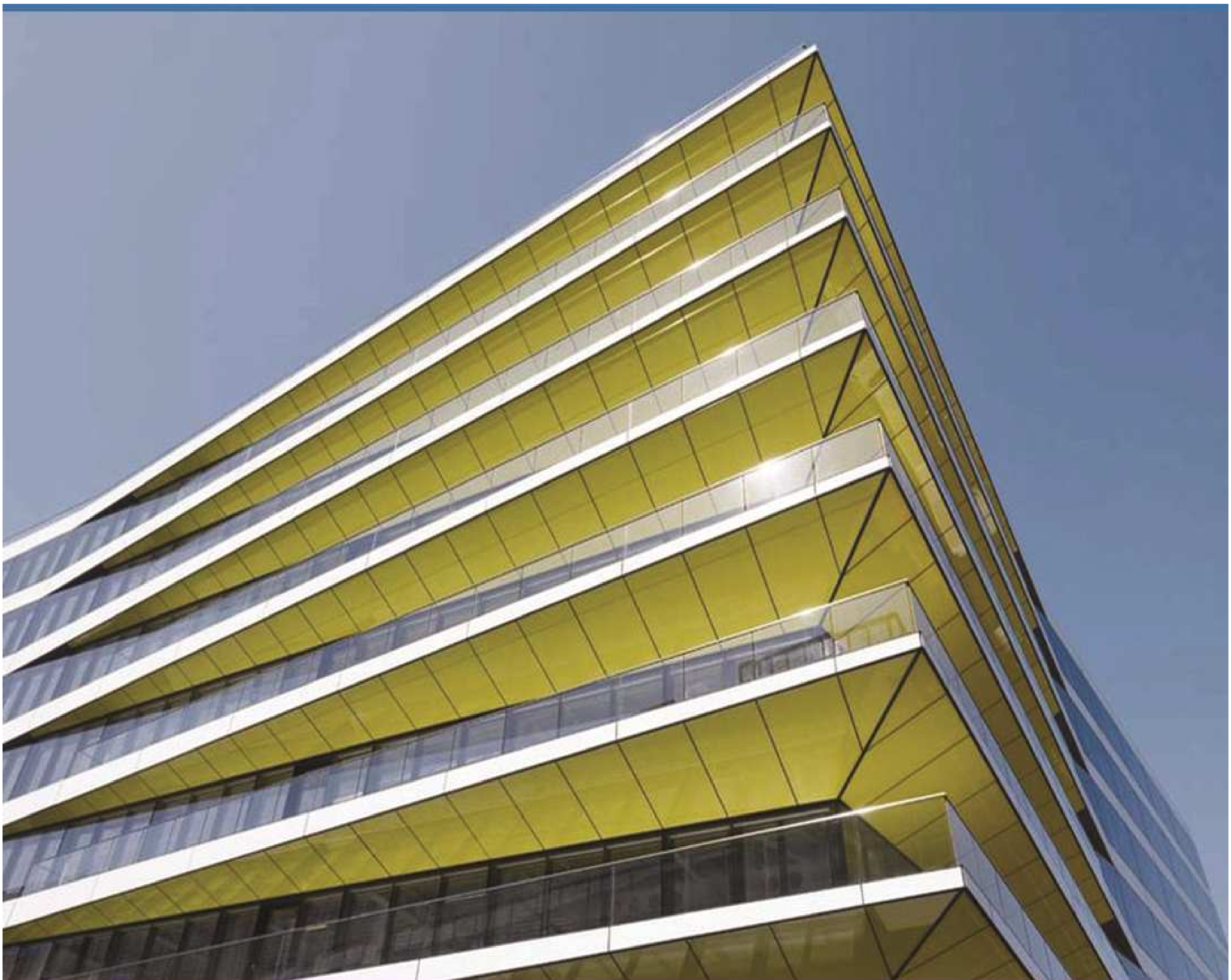
The FCA's Asset Management Market Study

July 2017



The FCA's Final Report on its Asset Management Market Study was published on 28 June 2017 alongside a Consultation Paper (CP 17/18) which sets out the first tranche of the amendments to be introduced pursuant to it. These papers set out the most substantive amendments to the shape of UK authorised funds since the replacement of the CIS by COLL in 2006. As a consequence, they require careful attention by UK authorised fund managers so they can plan to accommodate the FCA's proposals.

It is good news that the FCA acknowledge the asset management industry's vital role in the UK economy. The corollary of this, and some potentially bad news for asset managers, is that consequently the FCA is determined to follow through on a number of its slightly more draconian remedies for the perceived ills which it had set out in its Interim Report in November 2016.

The FCA's summary chart of its package of remedies is set out in Annex 1 to this Briefing Paper.

Whilst we now therefore have most of the key answers, or at least indications as to the direction of travel, the actions pursuant to the Report will come in various stages. Annex 2 to this Briefing Paper sets out the FCA's outline of how the various remedies will be introduced.

Is gold plating needed?

Pursuant to publication of the Interim Report in November we might well have asked whether the outcome of the Asset Management Market Study might be the death knell of UK authorised funds due to over regulation compared with alternative fund models already run in Luxembourg and Dublin. Now we know the direction of travel set out in the Final Report, we might hope that we can now see some gold plating but perhaps gold plating with which managers can cope?

The challenge will be for asset managers to work with the FCA in the ongoing working groups etc to make sure that the proposals are practical so that at least UK authorised funds continue to be the product of choice for UK retail investors, and potentially for a wider audience.

The issues raised in the Report are not peculiarly UK centric. We should essentially be look for "good gold plating" which will add to the reputation of UK authorised funds in the marketplace.

Problems waiting to be solved

Certain points they have picked up in their review work are perhaps problems waiting to be solved.

- **closet trackers**

  The idea of closet trackers has caused concern in various jurisdictions. The FCA note that they have found many active funds offering similar exposure to passive funds but with higher charges than would be applied to passive funds – estimating that there is around £109 billion in active funds that closely mirror the market which are significantly more expensive than passive funds.

  Ironically part of the problem has been the increasing use of index benchmarks and a nervousness (discussed as far back as the Myners Report in relation to institutional pension mandates) which means that managers dared not move too far from a portfolio related to the composition of that index because then they increase the risk of the fund's performance diverging from the performance of that index. Some high profile portfolio managers have had to justify where their performance has diverged from the expected benchmark, notably those who refuse to take the common view, say in the dot.com boom, and are later proved right. Maybe the press comment and regulator focus on this topic will now lead to an increased freedom for active managers to follow their own instincts, and a stock picking approach?

  Having said that though, it is important that this issue is not compounded by any proposals which emerge regarding performance, as mentioned below. It makes no sense to criticise closet trackers on the one hand and then, on the other, suggest that benchmarks should be included within investment objectives. Rather, as suggested below, perhaps the focus should be on better reporting of performance by reference to various reference benchmarks?

- **box profits**

  A particular issue arises for dual priced funds where fund managers run a box in their units of the fund on which potentially they could make profits by operating a manager's box.

  CP 17/18 sets out proposals for new rules to require AFMs to pass "risk free box profits" (ie profits generated by netting off transactions) to the fund and AFMs to disclose their policy on operating a manager's box and how any profits will be treated in the prospectus. Where relevant, AFMs will need to state explicitly their policy on operating a manager's box in the fund's prospectus and whether they may retain any profits from it. AFMs could retain profits made from holding positions between pricing points when using their own capital ("at risk box profits").

  Box profits on dealings were essentially abolished years ago and so requiring managers to return any risk free box profits to the fund and disclose box management practices to investors should not cause any particular new concern. Indeed the FCA acknowledge in CP 17/18 that a number of firms have now told them that they no longer retain risk free box profits.

  Part of the issue regarding box management practices is that there is a misunderstanding that dual pricing is actually fairer than single pricing. There is no single right answer on the best method of pricing but dual pricing does try to address the needs to balance the interests of ingoing, outgoing and remaining investors in the fairest way which is practicable. Fortunately the proposals do not seek to stop firms operating dual priced funds.

- **costs and charges disclosure**

  The notion of the industry and investor representatives agreeing some standardised approach for disclosing costs and charges is to be welcomed, although note that the FCA propose to ask an independent person to convene a group of relevant stakeholders to develop this workstream.

- **clear objectives**

  The idea of making objectives clearer and more useful to investors is a logical one which managers should always keep under review. The UK approach has always been to make them quite simple – eg "the fund invests in UK equities with a view to achieving capital growth" - whereas in Luxembourg and Dublin there tends to be a much more discursive explanation of the investment objectives and policies. One suspects the right answer is somewhere in the middle. Certainly better clarity, so investors can better understand the investment strategy, is to be welcomed. The difficulty though is that, with too much information, this fetters the discretion which the investment manager then has to adjust the strategy for managing the portfolio behind the scenes. It may become too much of a straightjacket and remember that for UK funds a substantive change to the investment objectives and policy requires the passing of an extraordinary resolution of investors.

Key proposals

Turning to the more contentious aspects of the Report, the FCA are intending to pursue a greater number of the more substantive proposals set out in the Interim Report than some managers might wish.

Governance

- **assessing whether products provide good value for money**

  Whilst managers already do assess whether their products and services offer value for money, this is not happening consistently. There is to be a new rule to require an AFM to assess whether value for money has been provided to fund investors. This must take place, and be formally documented, at least once a year considering:

  – economies of scale achieved when funds reach certain levels of assets under management – are economies of scale shared with retail investors (indeed maybe the question is "Are there any economies of scale to share?")

  – fees and charges and whether they are reasonable in relation to the costs incurred. Here there is a desire to consider comparable products for sale including similar sized institutional mandates (despite the fact that then you have got one client rather than having to deal with a number of investors?)

  – share classes – requiring AFMs to consider different share classes and whether these offer value for money and, where there are multiple share classes, that the AFM must assess and explain why some investors are in more expensive share classes with substantially similar rights and conditions – and the FCA will also make it easier to switch retail investors to better value share classes – see below.

At least annually the AFM will have to publish a report on the findings of its assessments, and actions it has taken or will take to discharge his obligations under this new rule. This could be part of the annual report or a separate dedicated report published by the AFM in respect of the range of for which it is responsible.

The aim is that investors and analysts, and platforms, will therefore have more information on the AFM's assessments on particular issues so that they have greater scope potentially to challenge AFMs on their performance in relation to these particular areas.

- **a prescribed responsibility for an AFM board's chair to act in the best interests of investors**

  It would seem that most asset managers are receptive to the idea of some element of independence within the fund governance structures – the issue is quite how one achieves this in a way which is effective in achieving the objective but is also cost effective and practical for the industry.

  Fortunately the FCA recognise that there is little support for any new governance body following other models. So, whilst there will be a strengthening of requirements, they focus on strengthening the rules applying to authorised fund managers - AFMs - as set out in Section 3 of CP17/18.

  Also, it is helpful that the FCA have not pursued the idea of introducing a statutory fiduciary duty or duty of care.

  The FCA has however observed that some respondents have suggested AFM boards can lack the authority within group structures to effectively challenge the commercial strategy made by the more senior boards and executive committees.

  The key change will be that, as part of SM&CR, a prescribed responsibility will be allocated to the chair of the AFM's board to act in the best interest of investors who will be a senior manager under the new regime. The Chair of the AFM board will be responsible for taking "reasonable steps" to ensure the AFM and its board adheres to the FCA's current and proposed rules. This will provide an individual incentive for the chair to ensure the firm properly discharges its responsibilities to consider the interests of investors. As a senior manager, the chair will also require the FCA's approval before taking up its role so the FCA will be able to assess whether or not the individual concerned is fit and proper for this important role. This, the FCA think, should increase the Board's effectiveness to influence decisions made within the group structure so that they are made after due consideration of investors' interests.

- **25% independence on AFM boards**

  The FCA expect that the task of following through on the "value for money" assessment will in large part be protected by the new requirement for independent members of AFM boards.

The proposed text to be inserted in COLL 6.6 would require the role of independent members to include providing input and challenge as part of the AFM's assessment of value for money in accordance with the new COLL 6.6.20R. Independent members could also be tasked with additional responsibilities, taking into consideration existing remuneration and conflict of interest rules.

The FCA propose a rule that an AFM appoints a minimum of two and at least 25% of the total board membership as independent directors to the AFM board. Each independent director must meet certain requirements:

- they may not be an employee of the AFM or of a company within the AFM's group or remunerated by them for any role other than as an independent board member.
- they may not have been an employee of the AFM or of another company within the fund group within 5 years before their appointment.
- they may not have received any sort of remuneration from the AFM group within the 5 years before their appointment.
- also they may not have had any sort of material business relationship with the AFM or with another company within the AFM's group within the last 3 years
- they may not have been an employee of any portfolio manager to which the AFM has delegated investment management within the 5 years before their appointment or have had any material business relationship with that portfolio manager within the last 3 years.
- for host AFMs, these requirements would apply to any commercial relationship the independent director has with the portfolio manager to whom the host AFM is to delegate the portfolio management functions - also independent members of host AFMs must not have been employed by the host AFM company for at least 5 years before its appointment.

The FCA intend that an independent director should be appointed for a term of no longer than 5 years with a cumulative duration of 10 years. Independent directors should not be eligible for re-appointment to the same AFM board until 5 years since the end of their last appointment has lapsed.

The advantages and disadvantages of independent directors have been debated at length – notably the corporate law point that any director should promote the success of the company just as much as an executive director. Nonetheless the FCA consider "that the company law duties require the assessment of the best interest of a company beyond measuring financial success", and independent directors should bring an external perspective which will support executive directors to meet these duties.

The FCA have eventually decided that it is the AFM itself which should decide whether to appoint an independent director as chair. Also, the 25% independent directors requirement will apply to all AFMs, including smaller AFMs.

There is a proposed implementation period of 12 months following the date of finalisation of the rules. The FCA acknowledge that recruiting two to three independent directors per AFM will "create a challenge across the industry".

These proposals will no doubt encourage better behaviours within asset managers and their AFM entities. They will challenge AFMs to justify that they are delivering value for money and disclose their justification. But will these new governance requirements in fact succeed in delivering better value for money?

Objectives

Having strengthened governance, the second main area of focus is to seek to improve the position regarding objectives, benchmarks and performance. The basic perceived ill is that the FCA think it is "difficult for even engaged investors to know what to expect from their funds". It is difficult for them to assess whether or not their fund is performing against relevant objectives, including those set by the fund manager". The outcome of this debate is the following:

- **clarity of objectives**

  The FCA believes that investors "could benefit from greater clarity as well as being better able to compare objectives between similar funds" and so is looking at whether the language used in objectives could make them more useful to investors at the point of sale and on an ongoing basis. All of this really is founded on the basic longstanding premise that all client communications and fund documentation ought be fair, clear and not misleading.

  This workstream could result in new rules or guidance. In the meantime there is just encouragement for asset managers to consider the language they use with a view to not misleading investors.

  Thankfully the Final Report indicates that the FCA agree that flexibility is needed and that the FCA's requirements for clear objectives should not place "undue constraints on managers" and so potentially negatively affect returns.

- **benchmarks in investment objectives**

  The FCA have recently been giving indications that what had in the past been internal benchmarks should now be included within a fund's investment objective statement. This can be unhelpful as it removes flexibility and, ironically, could herald the notion of the closet trackers which is an evil the FCA say they are now trying to avoid, as mentioned above.

  It is helpful that the Report indicates that all funds need not necessarily have a benchmark comparator or numerical target return. The FCA are not insisting that benchmarks must be compulsory. This would have been a very difficult step to take, partly because it might encourage closet trackers (which, for the reasons mentioned above, the FCA are trying to avoid) and partly because it would probably contribute to unreasonable expectations from investors. Rather there should perhaps be a focus on better performance updates, with comparators.

Asset managers should respond to the consultation on how to ensure managers are clear about why or why not a benchmark has been used and requiring the use, or otherwise, of benchmarks to be consistent across marketing material.

The FCA indicates that it will continue to consider appropriate supervisory action in order that funds are managed in accordance with applicable rules and investor expectations, and might potentially take enforcement action. Also, at fund authorisation stage, in accordance with the approach we have all been experiencing of late, there may be focus on how investment objectives are expressed in a way which the FCA indicate should be so that "they comply with relevant rules".

- **improving performance disclosure and communication**

Certainly performance information could be improved. The Final Report indicates that the FCA recognises that investors may not understand benchmarks well in the form of both indices and sector or category comparisons. If investor understanding is likely to be low though in this area, this reinforces the FCA's approach that it is important to ensure that performance is reported appropriately.

Probably we all agree that reports and accounts have failed to provide useful updates – notably recognised with the removal of the requirement for short reports, this is acknowledged by both the regulator and the regulated.

The question is how does one improve the performance information given to investors – and note the FCA is focussed not only on the usefulness of the information but also the comparability of the information.

The FCA's decision is that it is to consult on new requirements to clarify that

– wherever AFMs choose or are required to present their past performance, they must do so against the most ambitious target they set out to investors. So, for example, an absolute return fund's most ambitious target may be LIBOR plus 4% and they must show past performance against LIBOR plus 4%, not just against LIBOR alone.

– if no specific benchmark, comparator or numerical target is set for a fund, the AFM will not be allowed to present past performance against a benchmark, comparator or target returns across regulatory and marketing materials.

This will need some careful consideration in relation to the specific proposal. In due course there will be consultation on a rule and/or guidance which the FCA acknowledge will have to be considered for compatibility with European legislation such as UCITS and PRIIPs.

There is some irony here because the FCA has altered its stance about whether past performance is useful. The FCA had previously had to concede defeat given that the European provisions require past performance in various guises. Now we seem to be moving on a stage to the FCA encouraging the provision of more useful performance information.

Note also that the FCA view this as part of the wider initiative on communications – and they refer to CP 17/6 and the COBS 14.2.1 text.

The Working Group on objectives could consider the issue on how best to provide upfront and ongoing disclosure of performance against objectives and benchmarks, delivering value for money and providing clear information on objectives and performance which asset managers should address and on which they could seek to make improvements. It will be interesting to see what the Working Group on objectives will conclude on this topic and generally how investors should best be given insight into returns and future returns.

The underlying theme is probably to enable investors to spot persistent underperforming funds more quickly. But the Report omits the real reason why fund managers eventually do something about their funds by way of merger or closing them: which is that they themselves do not wish to have persistently underperforming funds.

Charging structures

The third main area of focus is on transparency of fees and charges. In this connection:

- **single all in fee**

The proposal that the FCA still support is for a single all in fee for investors to include the asset management charge and an estimate of transaction charges.

With the new provisions coming in for PRIIPs and MiFID II from January 2018, the FCA acknowledge that the new requirements under those measures for aggregated and ongoing information on all costs need to be borne in mind. There will need to be disclosure of indirect costs such as transaction costs and presentation of charges as a cash amount in cost disclosure documents. The indication though is that these measures will not be enough.

The FCA is testing ways to improve the effectiveness of any forthcoming disclosures. There may be consideration of guidance such as the wider use of pounds and pence disclosure. There may be consideration of better consistency between point of sale and ongoing disclosures.

We have to await the detailed proposals later this year in a further consultation.

- **performance fees**

The FCA is considering consulting on rules so that performance fees are only permitted where performance is above the fund's most ambitious target, consistent with its performance reporting proposal mentioned above.

There is a risk in being more prescriptive on how performance fee models work, so it may be better to rely on the existing statement that fees must not be unfair to unitholders or materially prejudice their interests rather than introduce specific restraints on performance fee models. The FCA is yet to consider whether any additional policy action is required to make performance fee structures more equitable.

- **costs and charges information for institutional investors**

  Much work has already been done in this area due to pension schemes demands and more will be done by asset managers due to MiFID II costs and charges disclosure requirements for professional investors. Industry initiatives are also recognised by the FCA. The FCA now propose to ask an independent person to convene a group of relevant stakeholders to develop this work further for both mainstream and alternative asset classes. Once that is complete, the FCA will then consider whether any other action is required to ensure institutional investors get the information they need to make effective decisions.

Other remedies relating to retail investors and retail intermediaries

Chapter 14 of the Final Report summarises responses and recommendations on share class switching and retail distribution.

- **mandatory share class conversions**

  Problems in switching between share classes – particularly post RDR – demonstrate the need to try and improve matters in that area.

  CP 17/18 includes proposals for moving fund investors to better value share classes. These are to clarify and reissue guidance set out in FG 14/4 on dealing with hard to reach unitholders indicating that an AFM can undertake a mandatory conversion if the following conditions are met:

  – the power to undertake a mandatory conversion as set out in the prospectus in line with COLL 4.2.5R 5 (d);

  – the AFM must have made all reasonable attempts to inform unitholders to enable them to give alternative instructions;

  – the AFM is satisfied on reasonable grounds that the change will not result in detriment to investors.

  This should be helpful.

  Note however that it is all couched under the overall umbrella of AFMs having to comply with the client's best interest rule in COBS 2.1.1R(1) in any event. AFMs will therefore need to review and document their reasoning for any particular proposal carefully, having regard to the client best interest rule.

- **close off trail commissions?**

  One interesting issue is whether or not pre-RDR share classes that pay trail commission should be closed off. The FCA seem to be nervous about doing this, although they are open to exploring the issue in more detail where the FCA "receive evidence of investor harm through continued trail commission payments", the FCA will feed this information into its further policy work in this area. Ideally, from the fund managers' perspective, these old share classes would be shut down but the debate here is more to do with the brokers and IFAs losing their anticipated trail commission which was part of their original fee deal perhaps than the investor's viewpoint?

  CP 17/18 indicates that the FCA wants to continue to engage on this issue and collect evidence which will help frame its thinking going forwards.

Investment platforms market study

There is to be a market study into investment platforms, again with regard to whether competition is working in that market place.

Given the growth of investment platforms and the fact that really asset managers often have little say in the intermediation with investors, this is a vital area in which the FCA should take considerable interest.

One can understand some of the issues regarding governance, objectives and charging structures. But there has been a temptation with the Asset Management Market Study to try and blame all evils on the asset managers, rather than the other participants in the picture between fund portfolios and investors. Investment platforms are an increasingly influential part of this chain.

The investment platform study will consider how "direct to consumer" and intermediated investment platforms compete to win new and existing customers. It will explore whether platforms enable retail investors to access investment products that offer value for money. Again, this "value for money" phrase is key.

This will be distinct from the position for advisers which is being considered within the remedies from the FAMR Report, with a review of the outcomes from FAMR expected in 2019 pursuant to the recommendations update published in April 2017.

Other remedies relating to institutional investors and investment consultants

There are a variety of issues which are discussed in the Asset Management Market Study relating to pension pooling, pension and trustee related issues and investment consultants.

- **pension pooling**

  Pension pooling has been discussed at various times over the years to no great effect in finding an answer. Even when schemes were introduced such as pension fund pooling vehicles, there was never any real take-up. Given the increasing use of pooled solutions, and increasingly quite complicated pooled solutions, for pension schemes, it is important this area is addressed.

The FCA's Asset Management Market Study

The FCA though is not taking action itself – instead recommending that the DWP continues to explore the possibility of removing some of the barriers to pension scheme consolidation and pooling.
It may though not be a structural issue as much as the types of pooled products which are sold to both DB and DC Schemes. This leads on to the debate regarding investment consultants.

- **investment consultants**

As expected the majority of proposals focus on asset managers. There is still though the follow through to come on the effectiveness of those providing investment consultancy services. The FCA acknowledge the fact that pension scheme trustees rely heavily on advice provided by investment consultants and frequently feel unable or unwilling to challenge that advice.
Not surprisingly the reference to the Competition and Markets Authority (CMA) is an option which is still on the table.

On 20th February 2017 Aon Hewitt, Mercer and Willis Towers Watson offered undertakings in lieu (UIL) for the FCA to consider instead of making a market investigation reference (MIR). However on 28th June 2017 the FCA wrote to the three firms to explain why their provisional view was to reject the UIL. The letter explaining why is published on the FCA's website. The FCA ask all interested parties to consider the provisional view and the FCA's proposal to reject the UIL and provide views by 26th July 2017. If the FCA's Board is minded to accept the UIL they would consult on a provisional decision to accept them under Section 155 EA02. If not, the FCA would expect to publish a decision on the market investigation reference in September 2017.

Certainly the FCA is conscious of the need to improve fiduciary management reporting and, if a market investigation reference is made, this is something they would expect CMA to consider.

In the meantime the FCA are helpfully suggesting to the Treasury that investment consultants should be within the scope of FSMA and so rather belatedly some of their activities which have so far been unregulated will become regulated activities.

- **disclosure to trustees of costs and charges**

These will, as mentioned above, be strengthened. There was an October 2016 consultation with rules and guidance on improving disclosure and standardisation of transaction costs in workplace pensions. The FCA is proposing a duty on asset managers is to disclose aggregate transaction costs to pension schemes that directly or indirectly invest in their funds. The FCA also propose that asset managers provide a breakdown of transaction costs on request with the total broken down into categories of identifiable costs (which could include specific costs such as taxes and securities lending costs). Further information on the proposals on institutional investor disclosure is set out in Chapter 13 of the Final Report.

Discussion on extending scope of proposals to other retail investment products

CP 17/18 acknowledges that there is a risk of further over regulating UK authorised funds which will add to the unlevel playing field as they compete in the market place. This will be unlevel not just in relation to non UK funds sold into the UK but also with regard to other products in the market place, notably unit linked insurance products including personal pensions, investment bonds and endowments.

The FCA are now asking for views as to whether remedies similar to those set out in relation to governance matters above should be proposed for other types of retail investment products and, if so, how they ought to be modified for them.

For insurance matters there has always been regulation of the insurer but little regulation of the insurance products – just disclosure in respect of them.

Consideration may be given to whether the management of unit linked funds which is covered by the ABI's Guide to Good Practice for Unit Linked Funds (the ABI Code) should emphasise independence in governance committees, especially on issues like value for money where the firm's interests may compete with those of investors; and whether the FCA rules requiring firms to appoint a with profits committee in respect of with profits business (which are already reasonably aligned because of the COBS 20.5 provisions) are sufficiently robust.

Pension schemes' use of both unit linked product and investment into funds is also on the FCA's radar, including whether the IGCs – Independence and Governance Committees for Workplace Personal Pension Schemes – are working.

Finally the FCA mention closed ended investment companies, including investment trusts. The FCA want to avoid regulatory standards applying to one type of investment vehicle that have no equivalent in the other. However, we will have to wait and see whether the FCA assess the risk of investor harm or disruption to the market if they do not extend their governance proposals for authorised funds to investment companies.

Next steps for asset managers?

The Report is a wake up call to asset managers to modernise their working practices for governance, charging and communications with investors.

Somewhat ironically, whilst this could be seen as modernisation, it could also equally be viewed as going back to principled basics. An investment fund proposition has always been quite a simple one: professional management for a fee, aggregating investments on behalf of a number of investors in a portfolio with a defined objective. Reduced to its basics, the Report really only asks for asset managers to explain whatever the basic investment premise is in clear terms, formulate its products having regard to the best interests of investors and then to report on them clearly. Even going back to a single fee is rather like going back to the old days when there was a single periodic charge which included some non

-manager fees such as the depositary's fees – although encompassing transaction charges is of course a new idea.

Many of the proposals discussed are simply founded on pursuing the high level principles of "fair, clear and not misleading communication" and having regard to the "best interests of investors". Achieving these basics requires a truly ethical approach to regulation, which all in the industry can understand and follow, and requires a positive, inquisitive and purposive approach from asset managers.

Asset managers should first address how they wish to lobby the FCA to modify any of the specific proposals set out in CP 17/18. Comments on the proposals set out in CP 17/18 are requested by 28 September 2017 and, once the instrument is finalised, the intention is that the provisions will come into force 6 months from the date they are made in respect of box profits and 12 months after the date that they are made in respect of the annual report in relation to the value for money assessment and independent directors.

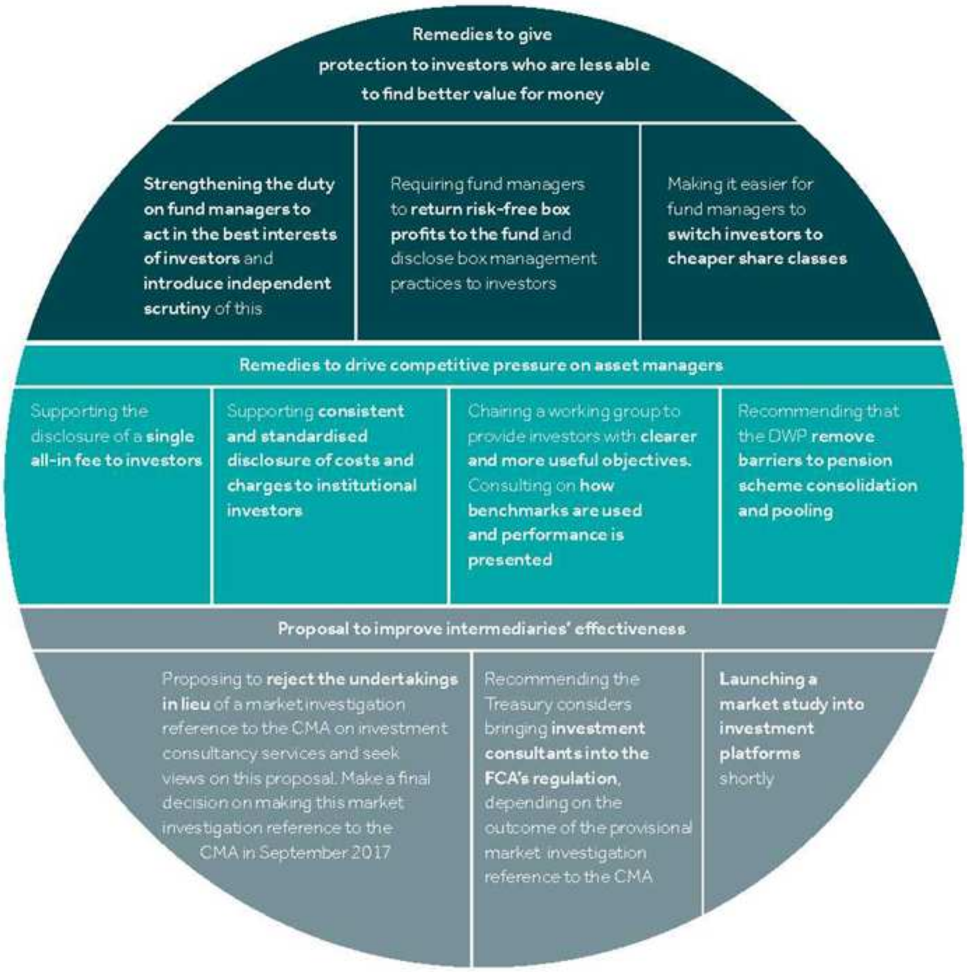
The second challenge is for asset managers, who have justifiably complained about over regulation and the unlevel playing field, notably, against insurance investment products, to take their chance to engage with the regulator to deliver a good outcome on the issues covered in this Report.

The story of the Asset Management Market Study probably proves (again) that we do not need more regulation, but better regulation. There is always a point where there is simply too much detailed regulation – mostly in relation to funds now due to the European law having to be imposed on top of UK detailed regulation. This FCA Report offers a good opportunity to re focus on the important fundamentals of providing professional asset management of pooled funds.

To discuss any questions regarding of the proposals, or for advice on specific consequences for particular asset management firms, please contact Kirstene Baillie at kirstene.baillie@fieldfisher.com or telephone 0207 861 4289.

Annex 1: The FCA's package of remedies

(table from Part B page 66 of the FCA's Asset Management Market Study: Final Report June 2017)



Annex 2: Extracts of "the next steps" from FCA Final Report
(paragraph 1.37, Final Report)

- Some remedies are contained in a Consultation – CP17/18.
  - strengthen the duty on fund managers to act in the best interests of investors
  - requiring fund managers to return any risk free box profits to the fund
  - facilitating switching investors to cheaper share classes
  - proposing to reject the undertakings in lieu of market investigation reference - in respect of investment consultants
- FCA remedies which do not require further FCA consultation do require action from others
  - the recommendation to the Treasury to bring investment consultants into the regulatory framework
  - the recommendation to DWP to remove barriers to pension scheme consolidation and pooling
  - recommendations to both industry and industry representatives to agree a standardised disclosure of costs and charges to institutional investors – asking an independent chair to convene relevant stakeholders to develop this further and working with stakeholders to consider whether any other actions are necessary
  - launching a market study into investment platforms shortly
- Remedies where initial views are set out in the final report just published but where we have to await further relevant detailed consultations.
  - Costs and charges disclosure to retail investors – later this year
  - Benchmarks and performance reporting – later this year
  - Convening a working group on objectives and consulting on any rule changes at a later stage – subject to the outcome of the Working Group.

A decision will be published on whether to refer the market for investment consultancy services to CMA later in the year.

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