THE
INVESTMENT
ASSOCIATION
INVESTMENT MATTERS

FCA INVESTMENT PLATFORMS MARKET STUDY INTERIM REPORT MS17/1.2

RESPONSE FROM THE INVESTMENT ASSOCIATION

21 SEPTEMBER 2018

EXECUTIVE SUMMARY

The Investment Association[1] (IA) welcomes the opportunity to respond to the FCA Investment Platforms Market Study (IPMS) Interim Report. Our members are responsible for the operation and portfolio management of investment funds in the UK market totalling £1.2trn funds under management. The IA membership also includes a number of firms with significant distribution capabilities.

The IA supports the overall objectives of the Market Study process to ensure a fully transparent and competitive market. We look forward to working with the FCA and other stakeholders on the issues raised in both the IPMS and the Asset Management Market Study (AMMS).

Scope and implications for analysis

- The scope of the Interim Report is narrower than initially set out in the Terms of Reference. We reiterate our long-standing view that the full customer experience in the UK retail funds market cannot be effectively assessed without taking into account the full diversity of the retail distribution chain, including the role of advisers.

- While the Interim Report distinguishes between direct to consumer (D2C) and adviser platforms in elements of the analysis, there would be a benefit in deepening this distinction to explore the different drivers of competition. The competition dynamics of D2C and adviser platforms may be significantly different as a result of the function served by each platform type.

- We note that the majority of the proposed remedies are at a very early stage. Given the level of current regulatory change, including AMMS implementation, we encourage the FCA to provide an update on its evolving thinking around remedies ahead of the Final Report. This would firms to comment on these and to be better prepared, for different possible approaches to be explored and for timescales for implementing changes to be realistic.

- The emphasis in the Interim Report on consistency of information is particularly important, for both charges and wider disclosure in areas such as risk labels and benchmarks. We look forward to working with the FCA and the platform industry to ensure a join up with ongoing work arising from the AMMS.

Measures to help consumers on D2C platforms who find it difficult to shop around and choose platforms on the basis of price

- Consistent, accessible information is as essential at distributor level as it is at the fund management product level. Some aspects of charges and cost transparency discussed in the Interim Report will be addressed by MiFID II, but MiFID II also creates challenges for the effective presentation of information.

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[1] The IA champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage nearly £7.7 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. More information can be viewed on our website.

- Aggregation may be helpful in terms of simplicity of total product and service charges but not necessarily for comparability and the accountability of different parts of the value chain. This has implications for the effectiveness of decision-making and more work is needed to help customers better understand the charges and costs they may experience when they invest through a D2C platform. IA research suggests a greater role for layered disclosure, which can take account of the nature, interest, engagement and sophistication of the audience.

Strengthening the extent to which platforms drive competition between asset managers

- Before addressing innovation for the presentation of fund charge and cost information at platform level, more work is needed to first bed in MiFID II effectively. Terminology, customer understanding and underlying transaction cost methodologies, all need further attention to ensure that the information being provided is accurate and robust. Any flaws in MiFID II disclosures need to be examined and addressed before testing how best to present them.

- At the level of customer fund selection, FCA Occasional Paper 32 (OP32) contains valuable insights, but restricted its analysis to only two parameters – charges and performance. Further research would be helpful ahead of any new remedies.

- The drivers of fund discounting depend significantly on the nature of the platform, particularly whether adviser platforms primarily provide technical services to facilitate adviser services. While some commercial arrangements with platforms may constrain fund managers, we are not aware of a systematic problem across the market.

Measures to help consumers who may be building large cash balances without knowing about interest, charges and potential lost investment returns

- Fund investors using platforms should be able to access appropriate returns over the long-term. Holding cash balances may therefore not be in their best interest. However, there may be specific reasons for certain patterns of customer behaviour that individual platforms would be in a better position to comment on.

Measures to make it easier for investors and advisers to switch platforms

- The IA is an active member of the Transfer and Re-registration Industry Group (TRIG) alongside nine other trade associations. The TRIG hopes to achieve its objectives without prescriptive regulatory intervention, but there are FCA actions which could facilitate the process, such as using the proposed framework as a basis for guidance in the Handbook on what a "prompt and efficient" service might look like.

- We do not support price regulation in the retail fund market, including the prohibition of any fee structure such as exit fees. Rather, we support FCA supervisory work in ensuring that fees are justified and accompanied by clear disclosure and/or additional explanation, as necessary.

Measures to help orphan clients

- Customers should only be paying for services they are receiving. Where platforms apply a specific charge to customers who are orphaned and not receiving advice, the platform should be able to demonstrate that the charge is the result of the cost of providing a service.

- Inactivity on a platform is not necessarily an indication of lack of an advice service. There may well be an ongoing relationship and interaction between the adviser and the consumer that does not translate into platform activity. Additionally, we do not consider it appropriate for one regulated entity to have responsibility for ensuring another regulated entity is carrying out its duties.

Measures to help consumers who may be exposed to unexpected risk levels

- Given that the retail distribution structure has changed in such a way that fund managers are competing on asset allocation with other players, comparable standards for clarity and consistency of disclosure should exist across the market. For model portfolios, we support greater use of standardised terminology and application of current performance and risk disclosure requirements that exist for funds.

- Fund managers are already working towards greater consistency and clarity of language in the context of FCA CP18/9, including an IA project to enhance communication material. It is important to ensure that this work as well as final rules on fund objectives, is properly joined up with any remedies from the IPMS.

Addressing potential non-compliance with FCA rules

- While we do not comment on commercial arrangements between platforms and advisers, FCA concerns in this area illustrate the need to include the adviser market in any competition analysis that is looking to understand customer cost of ownership in the retail fund market.

- Platforms' compliance with best execution rules is not directly relevant to fund managers but we agree that these rules should be applied consistently across the market.

1 INTRODUCTORY COMMENTS

1.1 The IA supports the overall objectives of the Market Study process to ensure a fully transparent and competitive retail fund market. Alongside the IPMS, we have participated extensively in the Asset Management Market Study (AMMS) as well as the Competition and Markets Authority (CMA) investigation into investment consultants and fiduciary management. A number of common themes emerge, notably around disclosure, and the IA is committed to ensuring the highest standards for customers both in the retail and institutional markets.

1.2 With respect to the IPMS specifically, we particularly support the emphasis in the Interim Report on the need for consistency of information, both on charges and costs and wider disclosure areas such as risk labels. We look forward to working with the FCA and the platform industry to ensure a join up with ongoing AMMS outputs as well as relevant regulatory change and any future remedies resulting from the forthcoming review of the Retail Distribution Review (RDR).

SCOPE AND DISTRIBUTION LANDSCAPE

1.3 We outlined in our responses to the IPMS Terms of Reference, MS17/1.1, and to the Asset Management Market Study (AMMS), that the retail value chain is complex and has been subject to a significant change in recent years. The main driver behind this was regulatory policy, and specifically, the RDR.

1.4 In the IPMS Terms of Reference, the FCA acknowledged that platforms are part of a wider distribution landscape which includes wealth managers, insurance firms, banks and asset managers with a direct route to market.[2] It was also stated that the analysis would take this wider landscape into account and specifically cover both platforms and other firms that offer access to retail investment products through an online portal.[3] Importantly, the Terms of Reference expressed the intention to analyse the difference in the cost of investment through alternative distribution channels.[4]

1.5 In our response to the Terms of Reference, we welcomed the broader scope and the intention to look at competition both between platforms and different intermediaries. We highlighted specific points to support this. For example, we stressed that in a post-RDR world, fund managers are competing for asset allocation not only amongst each other but also against other players in the market such as discretionary fund managers and platforms offering model portfolios. Moreover, we argued that advisers should be within the scope of this study given their central place in the retail distribution market and the fact that advisers who are part of vertically integrated business models would be considered.

1.6 We note that the analysis in the IPMS Interim Report has instead focused more narrowly on investment platforms. Therefore, we would reiterate a number of key points:

- Investors access funds in multiple ways and these journeys can involve a wide range of players, e.g. advisers, discretionary fund managers, platforms, model portfolio providers, rating services etc. Conclusions about overall customer value, and customer decision-making, can only be drawn by looking at the full range of these journeys.

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[2] Page 4
[3] Page 5, paragraph 1.14
[4] Page 26, paragraph 4.7

- Isolating platforms within the ecosystem limits the competition analysis and this is particularly evident in the context of the ongoing predominance of advised sales in the UK retail fund market. As we comment in more detail below, the IPMS cannot fully analyse the role of the adviser platform without also considering the advice market. The customer experience, including charge levels, is very different from that of the direct to consumer (D2C) market.
- The market has moved beyond a more traditional 'investment-platform-advice' split to a state of ongoing change that is seeing new models develop which do not separate these three activities but rather combine these and other functions in a range of ways. This includes the re-emergence of vertical integration across various parts of the value chain, with firms combining financial advice and portfolio management services with a platform offer in order to provide clients with a full service via a single brand. The analysis needs to consider the consumer experience across the different business models in more detail.

IMPLICATIONS FOR ANALYSIS

1.7 Within the narrowed scope of the Interim Report, the analysis focuses on two main types of investment platform: D2C and adviser platforms. The competition analysis acknowledges the different dynamics at work in some areas, e.g. when discussing the functionality versus price proxy relationship in Chapter 7 or noting that the D2C market is much more concentrated than the adviser platform market in Annex 1 to the Interim Report.

1.8 Nonetheless, the Report tends to generally refer to a single 'platform market' and a single group of customers who may be advised or non-advised. This results in an integrated set of conclusions about market dynamics and customer choices, which in reality differ significantly between the advised and D2C channels. While there is much within the conclusions of the Interim Report with which we agree, the Final Report would benefit from greater exploration of these differences, and their implications on potential final remedies.

1.9 As the Interim Report notes, fundamentally, adviser platforms are built to cater to the needs of advisers, facilitating adviser services to customers as well as payments from customers. There are distinct types even within this, with some adviser platforms serving a more administrative purpose by providing the infrastructure for carrying out investments while others play a more active distributor role. The incentives in each case differ and both functions are substantially different from D2C platforms. As a result, two key consequences need to be emphasised.

1.10 First, the nature of the commercial and general relationship between adviser platforms and fund managers is different to the relationship between D2C platforms and fund managers. Whilst D2C platforms are effectively the gateway to the retail customers, adviser platforms are not. This directly affects commercial dynamics, including the application and facilitation of discounting. There is some acknowledgement of these dynamics in the Interim Report, but there needs to be clearer signalling of the consequences and implications for both analysis and proposed remedies (as discussed below). In particular, adviser platforms – and especially those that focus on delivering purely an administrative and technical function – may not aim to drive fund discounts in a comparable way to a large D2C platform with promotional capability and much wider visibility over investor behaviour. That is not to say that adviser platforms are not competing with each other or that they are not able to achieve discounts on the platform fee. It rather reflects the different incentives to negotiate fund discounts compared to D2C platforms.

1.11 Second, while we fully support enhanced transparency of all fees and costs, presentation of information on adviser platforms does not have the same impact on customer decision-making as that of D2C platforms. The nature of the relationship between customer and adviser means that the role of the adviser platform is not to provide an alternative information or decision route for retail customers. This means that observations about FCA research affecting consumer decision-making[5] are much more applicable in the D2C than the adviser market, where a professional is advising the customer. This needs greater elaboration as it may imply that a different set of remedies for D2C and adviser platforms could be required.

1.12 There is an additional broader point about adviser platforms and the customer experience. Because of the current scope, the IPMS is unable to reach conclusions as to whether efficiency benefits from using adviser platforms are being passed on to consumers *"without further investigation of the adviser market"*.[6] As we have argued throughout the Market Study process, taking different segments at a time (first asset managers and then platforms while advisers are not addressed at all[7]) does not allow a holistic analysis of the customer experience to emerge.

1.13 This holistic analysis requires an analysis of total cost of ownership, which remains the ultimate measure of customer cost and determinant of overall value. In the pre-RDR world, this would have been reflected in the bundled ongoing charges figure (OCF). In the post-RDR unbundled world, it requires inclusion of relevant distribution and advice costs across the D2C and advised segments. While the bundled OCF was used in the AMMS analysis, it is conceptually absent from the IPMS and this needs to be addressed.

IMPLICATIONS FOR REMEDIES

1.14 A potential unintended consequence of the now narrower scope is that any remedies on disclosure and other areas could apply only to platforms and not to other structures that can be considered to be substitutes for platform services such as pension or insurance based distribution channels. This may have further implications on both customers' and advisers' ability to compare price and level of service across the spectrum. Clarity from the FCA on this point would be welcomed.

1.15 Furthermore, we note that the Interim Report provides *"early thinking"* on potential remedies and is seeking further feedback (summarised in Chapter 9) to develop more detailed proposals.[8]

1.16 Given this is the only opportunity for the industry and other stakeholders to provide feedback before the final report in Q1 2019, we are keen to avoid a process whereby the Final Report includes findings and measures on which stakeholders are not provided with an opportunity to submit feedback. This is particularly the case for remedies under:

- Measures to help consumers to shop around, particularly measures to improve price transparency and complexity.
- Strengthening the extent to which platforms drive competition between asset managers.

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[5] Page 9, paragraph 1.37
[6] Page 44, paragraph 4.55
[7] The Terms of Reference stated the intention to consider the advice market under the FAMR. In our response we noted the FAMR is not a competition study but instead focusses on how investors access advice and what the boundaries are between advice and guidance.
[8] Page 96, paragraph 9.1

1.17 We urge the FCA to consider providing thematic updates ahead of the Final Report and an opportunity to explore any resulting remedies with the industry, as opposed to a final view on which no feedback can be received. We also welcome the acknowledgement that the FCA will take account of the level of current change in relevant areas, notably MiFID II, PRIIPs and AMMS implementation.

2 MEASURES TO HELP CONSUMERS ON D2C PLATFORMS WHO FIND IT DIFFICULT TO SHOP AROUND AND CHOOSE PLATFORMS ON THE BASIS OF PRICE

This section responds to feedback questions 1-5 of the Interim Report outlined in Chapter 9.

2.1 Transparency and comparability of charge and cost information throughout the retail delivery chain is essential. Our views, outlined below, specifically relate to the D2C platform market given that the IPMS Terms of Reference made clear that the Financial Advice Market Review (FAMR) and the RDR review are considering the role of financial advisers, and thus, presumably, how advisers disclose charges. Clarity on whether the RDR review will address this and, more broadly, competition in the adviser market would be welcomed.

2.2 The Interim Report highlights complexity and lack of transparency of fees on platforms, which ultimately makes it difficult for investors to compare prices and make an informed decision. This is particularly brought out in Figure 5.2. The difficulty for investors to compare charges across platforms in a pre-MiFID II world is further highlighted by the fact that the FCA had to create a price proxy to help compare different pricing structures, e.g. for the analysis in Figures 7.2 and 7.3.

2.3 MiFID II should help to address this, but the MiFID II aggregation process also creates implementation and interpretation challenges (see also paragraphs 3.3-3.7 below). There continues to be the risk of conflation in policy between different transparency objectives. Facilitating customer understanding of total cost may require different tools from those needed for effective customer decision-making. For example, highly aggregated single numbers that include both product charges and platform charges may be helpful from a total cost perspective, but do not necessarily facilitate comparability and platform selection.

2.4 This is particularly important in the context of the observation in paragraph 3.49 of the Interim Report that consumers find it hard to separate out and understand different components of the total cost of ownership. More customer research may be necessary to see how this can be best achieved, which will also help cost accountability through the retail value chain (investment, distribution, advice). Greater consistency in the terminology used at platform level, alongside fund disclosure, may help avoid customer confusion in this area.

2.5 The IA is currently consumer testing the clarity of language in fund key information documents (more information in paragraph 7.3 below) and may offer critical insights for potential ways forward. Preliminary results have indicated that execution only investors who invest via D2C platforms would prefer to receive information in a layered format, i.e. providing basic simple information upfront, allowing those investors who want to know more, to have access to it. Perhaps this layered approach that allows for both simplicity and accountability can address the impediments to effective decision-making that arise from aggregation. Any future remedies on costs and charges disclosure at platform level should take this into consideration.

2.6 With respect to accessibility of information available on platforms and via third party providers, we support efforts that facilitate the comparison of platform costs and charges to enable customers to shop around. We would welcome further clarity about what the overall function of these third parties would be and how they would be regulated, particularly given potential access to detailed customer data.

3 STRENGTHENING THE EXTENT TO WHICH PLATFORMS DRIVE COMPETITION BETWEEN ASSET MANAGERS

This section responds to feedback questions 6-9.

INVESTMENT PRODUCT DISCLOSURE (Q6-7)

3.1 In Q6, the FCA asks for examples of innovation in cost and charges disclosure affecting choice between funds specifically. We reiterate that the market is currently adjusting to the MiFID II environment and the greater challenge of helping customers understand the nature of that information. Therefore, it is important for MiFID II costs and charges information to bed in before any further regulatory intervention on disclosure of costs and charges.

3.2 Regarding the disclosure of fund transaction costs specifically, we support full transparency but note three current issues:

- Consistency of disclosure by distributors. At platform level under MiFID II, we are aware that there is a lack of consistency in how different parts of the market are describing and disclosing transaction costs, and would like to work with distributors to address this.
- Customer understanding. The inclusion of transaction costs in aggregated cost reporting has the potential to complicate decision-making. Although there is a linear relationship between charges and net performance, no such relationship exists for transaction costs.[9] The conversation with retail (and institutional) customers requires much further work and the IA and its members are undertaking a range of initiatives in this area.
- Implicit cost methodologies. The nature of the slippage approach in calculating transaction costs, transmitted from PRIIPs and currently being used across the market, creates significant difficulties for both headline and aggregated presentation of charges and transaction costs. A fund is not 'cheaper' because of negative transaction costs which are reducing its overall headline number. We will be responding separately and in detail to the FCA on this critical problem[10] which may need to be addressed before any further disclosure options are considered in the context of this Study.

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[9] See IA response to AMMS Interim Report, Exhibit 12, page 42.
[10] In response to FCA Call for Input: PRIIPs Regulation – initial experiences with the new requirements, July 2018.

INNOVATION AND OP32

3.3 The Interim Report refers to the FCA Occasional Paper 32 (OP32) and states that this research suggested that *"by presenting fund charges information in a clear, understandable and prominent way, platforms and other intermediaries can increase the attention investors pay to charges"*.[11] The Report suggests that platforms may want to use the findings and design the corresponding consumer journeys accordingly.

3.4 It is important that the investment journey helps the consumer understand the relevant decision points. Although providing valuable insight, the experiment carried out in OP32 may be too simplified relative to consumers' real life experience. Our views on this paper are outlined in more detail in the Annex to this submission, highlighting potential limitations given that all factors beyond charges and performance had been removed from the analysis. We would welcome further testing built on the actual decision-making process of D2C customers.

3.5 In the MiFID II context, we note that the experiments were carried out using the OCF from the established UCITS Key Investor Information Documents. This is due to be phased out as part of the PRIIPs transition and, therefore, the experiment is not consistent with the new disclosure requirements. The IA believes that using the OCF is the correct approach, since it allows customers to see product fees specifically. By contrast, we are concerned about the difficulties that will be faced once other MiFID II elements, notably transaction costs, are added into the process, given that product charges and transaction costs affect investment returns in different ways. Again, we are keen to support greater customer testing in this area.

3.6 The FCA states that it plans to carry out a supervisory review before the final Platform Market Study is published in Q1 2019 to see how firms are complying with MiFID II costs and charges disclosure. While we support such reviews as part of the FCA's ongoing supervisory agenda, it is worth bearing in mind that many MiFID firms may not be publishing the first ex-post report until March 2019.

3.7 Overall, we think it is too early to consider any disclosure remedies between now and Q1 2019. In the meantime, we are keen to work with the FCA to facilitate and test further consumer understanding of how costs and charges are presented.

COMMERCIAL TERMS AND THE ROLE OF PLATFORMS (Q9)

3.8 As we outline in previous submissions and our introductory comments to this submission, we encourage the FCA to look more closely at the economic function of different kinds of platform. Platforms historically were not D2C distribution structures, but rather a new form of intermediary designed to facilitate the administrative connection between fund managers and a predominantly advised retail market. In this form of arrangement, there is no direct retail customer decision-making function, nor is there an inherent commercial driver to alter competition between fund managers. The control of fund flow usually lies elsewhere, and with that, the mechanisms by which customer decision-making operates.

3.9 The Final Report would benefit from a greater analysis of the different circumstances under which enhanced terms would be offered on a selective basis in the retail fund distribution market. For example:

- To wealth management firms who can support particular funds with relative high, on-going cash flow. A key consideration is the likely persistency of the

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[11] Page 99, paragraph 9.12

business/depth of the client relationship, and whether terms can be ring-fenced. This would operate either via the wealth manager nominee or through a platform if that arrangement could be facilitated.

- To D2C platforms, where a combination of scale and market visibility provides a commercial incentive to the manager, given also the visibility of any enhanced terms across other parts of the market.

3.10 In the first example, the platform is not aiming to alter competition based on flow or volume assumptions. It is rather aiming to facilitate the flow decisions that stem from its users (advisers and wealth managers). In the second example, a D2C platform has a different relationship with its customers and, with scale comes a different form of commercial power.

3.11 In regards to the arrangements by which price competition is delivered in the retail market, the FCA finds that some platforms are using agreements with managers to ensure that they have access to the best or no worse prices than are available elsewhere in the retail market. Most favoured customer clauses, where they exist, are driven by the distributor and can affect the availability of discounts in the market in that fund managers would either offer to all distributors the same price or not negotiate a discount at all. This can, in specific cases, act as a constraint on individual funds or fund managers. However, we understand that this type of arrangement is not prevalent. Other types of arrangements exist and platforms do achieve discounts from fund managers. The reason why fund managers may not offer the same discounts to other platforms reflects the fact that these would not be on a like-for-like basis due to the different nature and level of services that each platform provides. Indeed, it is the unique proposition of each platform that can drive the discount in the first place.

3.12 Moreover, there are practical challenges to offering discounts across multiple platforms in the post-RDR environment. Creating new share classes for each platform is not ideal, nor can most platforms accommodate specific arrangements with advisers. For example, a fund manager may seek to distribute a particular fund via one adviser with a cap on the flow into the fund, but most platforms are not able to ring-fence that one arrangement between the fund manager and the adviser and also cannot accommodate the capping of the fund flow. Some platforms may have no pressure or incentive to accommodate specific fund houses and adviser needs. Limitations such as these have not been explored by the FCA in its Interim Report and both industry and end investors could benefit from greater flexibility by platforms in accommodating such arrangements.

3.13 Furthermore, where fund discounting arrangements have been put in place, some platforms (both D2C and adviser platforms) will rename share class under their own branding for that discounted fund. This can make comparison across platforms difficult for an investor and adviser, as at first sight, the same fund will be labelled differently.

4 MEASURES TO HELP CONSUMERS WHO MAY BE BUILDING LARGE CASH BALANCES WITHOUT KNOWING ABOUT INTEREST, CHARGES AND POTENTIAL LOST INVESTMENT RETURNS

This section responds to Q10-16 of the Interim Report, outlined in Chapter 9.

4.1 The IA understands the FCA concerns regarding the cash that consumers hold on platforms, particularly the level of cash on D2C platforms but would argue that platforms are in a better position to offer insights as to why there is a differential between advised and D2C customers.

4.2 We agree with the FCA concern that if customers are holding cash as a significant long-term investment, this could pose a risk to good outcomes.[12] Remaining invested with an appropriate asset allocation may achieve a better return, particularly in the recent low interest rate environment which has adversely affected returns on cash accounts.

4.3 This concern notwithstanding, we would not necessarily see 8.8% in cash as unduly high, and it is not entirely clear why this would be interpreted as an indicator that self-directed investment customers may not understand costs or low interest rates. There may be quite specific behavioural reasons why self-directed customers tend to hold higher levels of cash such as, waiting longer to invest or re-invest, taking a more cautious attitude to market conditions at any given time, or due to tax year considerations.

4.4 Given this, it may be worth viewing this point in the context of what decision-making support could be provided for self-directed investors rather than in the context of potential detriment.

5 MEASURES TO MAKE IT EASIER FOR INVESTORS AND ADVISERS TO SWITCH PLATFORMS

This section responds to feedback questions 17-22.

MECHANICS OF TRANSFER AND RE-REGISTRATION (Q17-18)

5.1 The IA has been an active member of the Transfer and Re-registration Industry Group (TRIG) alongside nine other trade associations. We have fully supported its work to encourage the industry to improve transfer and re-registration times.

5.2 In June this year, TRIG published the industry-wide framework for improving transfers and re-registrations (the framework) which includes a maximum standard of two business days for a firm to complete their own step in the transfer and re-registration process. The framework states that prior to or following the initiation of a transfer or re-registration, the acquiring provider, along with the client's adviser, where there is one, should provide the customer with an outline of the process from their perspective and an indication of the timeframe for completing the transfer or re-

[12] Page 100, paragraph 9.16

registration. They should also be given a summary of the relevant potential causes of delays that might arise and who to contact and how if their expectations are to be met or they have a question or wish to make a complaint.

5.3 The FCA made it clear in a meeting with trade bodies in February 2016 that it would prefer an industry solution rather than impose rules. The trade bodies have therefore worked to develop the framework for firms to follow, which was finalised earlier this year. The process for agreeing the framework has not been straightforward due to the diverse range of products and types of firms they have had to implement standards for. TRIG has pointed out in the framework that it would like to improve the customer experience, by identifying and encouraging good practice, so that outlying firms improve their own processes.

5.4 The TRIG intention is to achieve its objectives without prescriptive regulatory intervention and the IA hopes this will not be required. However, there are things that the FCA could do to facilitate the process.

5.5 First, the IA agrees that the FCA could encourage adoption of the framework by using it as a basis for guidance in the Handbook on what a "prompt and efficient" service might look like for the re-registration and transfer of retail investment products.

5.6 Second, when visiting platforms as part of on-going supervisory work, the FCA could ensure that the standards within the framework are being followed. When there is data available on how firms are meeting the standards, the FCA could use this to ensure processing times for transfer and re-registration is improving at all parties involved, including platforms.

5.7 As a member of TRIG the IA also agrees that collecting and publishing data will be central to the success of the framework and ensuring timely processing of transfers and re-registrations by all parties, including platforms. TRIG has recently published a Request for Proposal to find an organisation to take on the role of data collection, monitoring and governance of the framework and to develop the good practice standards further.

BANNING EXIT FEES

5.8 The Interim Report states the FCA is considering preventing platforms from charging platform exit fees. Regardless of the type of fee under consideration, we do not see it as the regulator's role to ban specific fee structures, but rather to look at the conditions under which any kind of fee may be leading to customer detriment and encourage market adjustments, as necessary.

5.9 In this regard, where exit fees are applied, the platform should be able to demonstrate that the charge relates to relevant activity costs. Exit fees should not be used as a barrier to prevent clients from switching. They should be clearly disclosed to the investor at the outset and processed in a way that does not prevent any delay in the switching process.

WIDER ISSUES

5.10 The Interim Report also outlines measures which could improve switching between share classes, particularly requiring the ceding platform to first transfer the consumer to the gaining platform's share class before the switch takes place. IA supports measures which facilitate share class switching that is in the best interest of the client. We are already exploring with our members what further challenges around legacy holdings exist, following FCA PS18/8[13]. In particular we are focusing on challenges around moving investors to other share classes, moving investors from legacy direct book arrangements and bulk transfers of ISAs. We would be happy to work further with the FCA to look into these issues in more detail.

5.11 A final point is that any future remedies applied to platforms to improve switching should take into consideration that investors don't just switch between platforms, but also to and from products offered by banks and life companies.

6 MEASURES TO HELP ORPHAN CLIENTS

This section responds to feedback questions 23-25.

6.1 Customers should not be paying for services they are not receiving. Where platforms make a specific charge to clients who are orphaned and not receiving advice, the platform should be able to demonstrate that the charge is the result of the cost of providing a service to those clients.

6.2 It is also reasonable that adviser platforms that do not cater for non-advised clients have in place a process to assist with moving such clients into more appropriate arrangements if they have not appointed a new adviser after a considerable period of time. We recognise that platforms with orphan clients are likely to encounter similar barriers to moving investors to other platforms as have been encountered by asset managers seeking to move clients from legacy arrangements, namely poor response rates to letters requesting action from clients even where it is overwhelmingly in their interests to do so. It is, therefore, important that in circumstances where both platforms and asset managers have the ability to move clients from legacy arrangements to more appropriate arrangements without the client's instruction, they can do so but upon giving reasonable notice.

6.3 In this regard, the revised guidance FG18/3, which removed a barrier to asset managers being able to move investors from legacy share classes into other share classes without their explicit instruction, is welcome. However, other barriers remain to moving investors from legacy arrangements without their explicit instruction (which is often not received, usually due to investor inaction rather than objections on the behalf of the investor). An example of relevance to this consultation relates to the transfer of investors in one nominee arrangement to another nominee arrangement.[14] The IA would welcome engagement with the FCA on removing further barriers that prevent clients of both platforms and asset managers from being moved from legacy arrangements into more appropriate arrangements.

6.4 Providing support to customers is important but the proposed remedy to require platforms to check that customers are receiving an advice service if there is no activity after a year requires greater thought. Investing in funds or a portfolio of funds

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[13] FCA PS18/8 includes revised guidance which enables authorised fund managers (AFMs) to move investors in other share classes.

[14] Since the implementation of MiFID II on 3 January, IA members have reported difficulties in undertaking such bulk transfers between nominees, and we expect similar difficulties are being encountered in transfers between platforms (where investors are also held in nominee arrangements). This is due to the requirement in COBS 8A.1.4EU, copied across from article 58 of the MIFID Org Regulation (Commission Delegated Regulation (EU) 2017/565), for a MiFID firm to obtain a client agreement before providing investment services. This requirement is currently preventing many firms from being able to conduct bulk transfers between nominees, including bulk transfers of ISAs, which have always been envisaged in the ISA regulations.

is a long-term investment activity and there may be valid reasons for lack of activity on a client's platform account over a 12 month period. Furthermore, where advice is provided, platforms do not have visibility of the ongoing customer-adviser interaction, via e.g. meetings, telephone conversations or email exchanges, as this will not necessarily result in activity on the platform account. Therefore, a lack of activity does not mean no advice service is being provided.

6.5 More fundamentally, and aside from standard due diligence practices, it is a matter of principle that one regulated entity should not have responsibility over another regulated entity to ensure they are carrying out their duties.

7 MEASURES TO HELP CONSUMERS WHO MAY BE EXPOSED TO UNEXPECTED RISK LEVELS

This section responds to feedback questions 26-27.

7.1 The Interim Report states the FCA plans to do further analysis to (a) understand whether consumers or advisers would be able to assess the risk levels of model portfolios and (b) to identify the main drivers of the differences in charges for model portfolios by platforms and comparable firms.

7.2 As noted previously, competition patterns for asset allocation have become more complex in recent years with a range of players offering products to retail customers that provide a multi-asset investing framework. As a matter of principle, standards should be comparable across the market in key areas such as: the clarity of disclosure around language used to describe investment objectives, strategy and risk; the associated charges and costs; and performance reporting.

7.3 On the first point, as outlined in the IA's response to FCA CP18/9, the IA has been running an industry-led workstream to enhance communication materials. The aim is to develop industry guidance, in conjunction with consumer testing, as to how objectives may be explained more clearly to investors. This work stream has three strands:

- Clarity of language in objectives, policy and strategy;
- Investor expectations regarding performance reporting, risk and time horizons; and
- Assessing useful information for consumers.

7.4 The IA's Investor Communications Working Group (ICWG) is taking this work forward and the IA welcomes the FCA's participation as an observer to that Group. Output is expected in Q4 2018 to coincide with the finalised rules and guidance resulting from CP18/9. This work will also address standardised terminology that fund managers use to describe their strategy.

7.5 This work will need to be considered by distributors and advisers and cover all elements of the investor's portfolio. The IA and fund management firms look forward to further dialogue with the FCA, distributors and advisers about how to ensure consistency and effective communication throughout the delivery chain.

7.6 The IA sees the IPMS as providing the necessary link between the CP18/9 and the work the IA is undertaking. It is important that the remedies resulting from the

Interim Report are joined up with any potential disclosure remedies as a result of CP18/9 and the forthcoming review of the RDR.

7.7 Finally, we would support applying current performance and risk disclosure obligations for funds not only to platforms' model portfolios but also to any product that reflects an asset allocation service. They are economically substitutable products and customers should be able to compare them.

8 ADDRESSING POTENTIAL NON-COMPLIANCE WITH FCA RULES

This section responds to feedback question 28.

8.1 The findings in the Interim Report show FCA concern regarding platform and adviser behaviour regarding the inducement rules and platform compliance with best execution rules.

INDUCEMENTS

8.2 The FCA provides a table[15] which shows the key tools and services platforms provide to advisers. We note that the FCA expresses a range of concerns about some aspects of the arrangements between platforms and advisers, given that the platform fee is paid by the customers.

8.3 We do not wish to comment specifically on these arrangements but would reiterate a broader point made earlier in this response. Adviser platforms have developed to support advisers in delivering an important professional service to their retail customers. Any consideration of the commercial relationships between advisers and platforms cannot be undertaken in isolation from analysis of the adviser market itself, and the fee structures in place to deliver advice.

BEST EXECUTION

8.4 Best execution rules should be understood and properly applied across the financial services market. As the discussion of compliance with the best-execution rules primarily related to dealing in securities through platforms, this issue does not have a direct relevance to the products produced by IA members. IA members do not use the Retail Service Provider (RSP) model used by the platforms to execute their trades. Notwithstanding this, platforms should be clear to their customers when their transactions in open ended funds will be executed.

[15] Page 41, paragraph 4.36

ANNEX

This Annex outlines IA comments on FCA Occasional Paper 32: *Now you see it: drawing attention to charges in the asset management industry* and the accompanying London Economics Technical Paper: *Asset Management Market Study – Experimental Consumer Research and Focus Groups*.

The experiment outlined in Occasional Paper 32 and the accompanying London Economics paper, presents findings on how customers respond to different treatments prompting them to focus more on fund charges and the impact of fund charges. The IPMS Interim Report refers to these findings and proposes that platforms consider these when they design consumer journeys. We believe there are limitations in the degree to which these results can form the evidence base for platform innovation. This is for five main reasons:

1. The research started from the assumption that investors are not aware of or sensitive to fund charges. This was based on findings in the FCA AMMS which the IA has challenged and our concerns on this subject remain. Our interpretation of the AMMS findings is that investors may not be aware of the different components of the charges they are paying but they are generally aware of the fact that they pay a charge and they do take this charge into consideration when making investment decisions.
2. The experiment concluded that the treatments led investors to choose cheaper funds *without changing their preferences* and behaviour towards other factors. We argue that the way the experiment was designed and carried out would not allow for a conclusion on this point to be reached as all factors beyond charges and performance had been removed from the analysis.
3. The emphasis on past performance alongside price seems to be at odds with a regulatory direction of travel that de-emphasises past performance in the decision-making process. Given increasing concerns that the PRIIPs scenario approach is misleading and flawed, there is a case for encouraging consideration of past performance as well as other factors, such as objectives and risk that are currently subject to other AMMS-related changes to make disclosure more effective.
4. There is still further discussion to be had on the behavioural impact and interpretation of the aggregation of charges and costs of a different nature. We note that the treatments focused on the OCF rather than the MiFID aggregate fee and we outline why we believe using the OCF is the right approach and the difficulties that will be faced once other MiFID II elements are added into the process.
5. Given the nature of the experiment, we question the extent to which the findings can be further generalised in real life situations, given that respondents themselves indicated that they would behave differently in such circumstances.

Taken together, these factors suggest there would be merit in implementing the existing disclosure and value delivery remedies arising from the AMMS before proceeding to quite a significant further intervention that does not seem to be justified in the context of the methodology used and results presented in Occasional Paper 32.

SECTION 1: THE ACTUAL EXPERIMENT

Occasional Paper 32 outlines that the aim of the consumer research was to examine how different ways of presenting fund charges affects consumer fund choices. This was done in a controlled environment where consumers visited a simulated platform on which they were asked to choose between six actively managed UK equity funds with identical risk profiles but different levels of charges and performance. Within this platform, four types of 'warnings' on the level and impact of charges were presented and the research assessed the effect of each warning on investor choices.

In terms of theoretical experiment, it delivered the mandate and showed under what conditions investor behaviour could be steered towards even greater price sensitivity. Our comments focus not on the experiment itself but rather on the starting and finishing lines. Namely, we outline in this Annex our views on the assumption under which the experiment was carried out and on the conclusions that seem to have been drawn from it.

STARTING LINE

This research was intended to address the AMMS conclusion that investors show little sensitivity to price. We believe that both the AMMS and the London Economics paper showed that investors are price sensitive and aware of the fact that they pay a fund charge but there is some confusion on the components of fund charges.

On price awareness, the AMMS Interim Report noted that *"the evidence on whether investors take charges into account is mixed"* quoting the findings that *"most (77%) of non-advised retail investors … looked at charges when they made their initial investment decision and 45% said charges were an influential factor in their choice"*.[16] Still, what was emphasised was the finding that *"more than half of retail investors … did not know for sure that they were paying fund charges on their investment product"*[17] and also qualitative research where respondents mentioned charges only when prompted.[18]

In the IA response to the AMMS Interim Report, we challenged these findings[19] and argued that the AMMS Interim Report was conflating overall price awareness with awareness of the different components within a product charge (products being defined in the AMMS research to include ISA, pensions and drawdown). In our view, this exercise showed a degree of confusion about the different kinds of cost and the difference between AMC and OCF. It did not show that investors were unaware of the fact that they do pay a charge when they invest in a product. This seems to be borne out in the results presented in the IPMS Interim Report where independently of treatment, respondents seemed broadly unable to correctly identify whether or not each and every charge component applied.[20]

The final AMMS report did not make this distinction, but revised the 77% figure by saying that as 72% of the 77% of investors that looked at fund charges when making investment decisions could identify the OCF, this meant that only 55% looked at fund charges.[21]

Overall, we maintain the view that the evidence in the AMMS did not unambiguously suggest that *"awareness of charges is quite low"*.[22] Rather, it showed that investors do consider price and need a better understanding of its composition. Consequently, the starting assumption for the consumer research should have been calibrated differently. Indeed, the experiment itself showed that without any intervention of any sort, almost 73% of respondents were already choosing the cheapest fund.[23] This seems to be at odds with the assumption that investors are not considering price.

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[16] AMMS Interim Report, paragraph 4.28, page 49
[17] AMMS Interim Report, paragraph 4.29, page 50
[18] Ibid. We do note however that interviewees were prompted to discuss other factors such as performance, risk, liquidity etc.
[19] See in particular IA Response, Part Two, paragraphs 74-79, and Annex 1, paragraphs 30-46
[20] London Economics, Figure 14, p.45. See also Occasional Paper 32, Figure 7, page 22
[21] Final Report, paragraph 4.18, page 25, footnote 15
[22] London Economics, page 14
[23] London Economics, Figure 12, page 35

FINISHING LINE

As well designed as this research was, it was an experiment that significantly simplifies consumers' real experience and therefore has limitations. We see two points that merit particular attention.

1. What conclusions can be drawn?

Perhaps one of the strongest statements in the paper is that the treatments led respondents to choose cheaper funds but did not lead them to change the other factors that they considered or the importance they placed on these.[24] This was based on the finding that some of the treatments led investors to choose a cheaper fund whilst at the same time the factors that people were listing to be the most important for their choice generally (performance, charges, and risk) did not differ across the different treatments to which they had been exposed to.

Notably, the FCA website makes an even stronger statement: *"We found that these measures led to investors paying more attention to charges in their decision-making, without appearing to change the importance they placed on other fund characteristics, such as risk and brand."*[25]

We strongly disagree with this conclusion in that this is not something that the experiment really showed. The only factors that varied across funds in the experiment were charges and performance. Even with the follow up interview questions, the experiment never really examined preferences across other factors. In fact, the paper clarified that there were *"minimal differences"* in fund objectives, asset allocation, historic yield, fund size and number of holdings whilst risk level, sector, income frequency fund type, dealing frequency and valuation point were held constant.[26]

Given that variation in all these considerations had been deliberately taken out, it is not clear to what extent this conclusion can be reached. This would require further analysis that observes fund choice in the context of varying risk, fund objective etc. Ideally, the experiment would have been carried out from different angles. For example, how would investors behave towards price and other factors if the central question was risk? How would decisions change (if at all) if the warnings were focussing on performance?

2. To what extent can the results be generalised?

The paper states that the design was such that would *"ensure that the observations from the experiment can be transferred to the real world setting in which investors search for and compare funds. The functionality and look and feel of the platform was based on extensive desk research on existing platforms"*.[27] The look and feel is not the same as being confronted with an actual choice of a diverse set of funds. Things are much more different once one has all the factors to take into account that had been removed from this experiment, e.g. fund type, brand, risk level etc.

Moreover, even in this controlled environment, where the choice had been simplified between six very similar funds (not only were they all active UK equity funds but they all had identical risk profiles), respondents indicated that they would behave differently. For example, respondents themselves clarified that they would have looked at the detailed information pages in reality when real money would be at stake and that they would even

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[24] London Economics, page 47
[25] FCA website, https://www.fca.org.uk/publications/market-studies/asset-management-market-study#final, (accessed 7 June 2018).
[26] London Economics, page 28
[27] London Economics, page 56

reflect on these and other sources a number of times.[28] This would contradict the statement that the experiment reflected how respondents would act in reality.[29]

Beyond these two points, the question that is very relevant in real life but not addressed in the paper is to what extent the change in consumer behaviour will be for the better altogether. Namely, if a review screen is presented that drives at least some consumers to act purely on price information, there is no guarantee whether this will result in a better outcome. Outside a controlled test environment, risk levels vary considerably, investors see varying investment objectives and brand also has value. There could be unintended consequences from an intervention that is designed on making consumers act only on price, e.g. investors may go for a riskier fund, one where the objective is not appropriate etc.

SECTION 2: OCF VS MIFID II AGGREGATE DISCLOSURE

A significant feature of this experiment related to the communication of ongoing charges rather than the all-in fee in the treatments. The AMMS Final Report stated the following: *"we continue to support the disclosure of a single all-in fee to investors and MiFID II will introduce this for investors using intermediaries. This will include the asset management charge and an estimate of transaction charges. We are testing ways to improve the effectiveness of forthcoming disclosure and will consult on any proposals later in the year."*[30]

In this respect the London Economics paper explained that the landing page allowed easy comparison based on a number of criteria including the ongoing charge and a total costs and charges figure *"to reflect potential future regulatory changes requiring an all-in fee to be presented to investors"*.[31] Moreover, the executive summary stated that *"under the baseline and all four treatments the ongoing change of each fund was displayed both as a percentage and in pounds and pence per £10,000 invested and a total costs and charges was also shown"*.[32]

Looking at the details of the experiment, one sees that a total costs and charges figure was indeed shown on the landing page with the detail breakdown of charges in each fund's 'further details' page. However, with the exception of the warning, that bears no relevance to how charges are presented, the other three treatments focussed on the ongoing charges figure.[33]

The impact chart that aimed to show the long-term compounding effect of charges on returns needed to use the OCF and exclude transaction costs due to the simple fact that the OCF has a linear relationship with net returns whereas transaction costs do not.[34]

The comparator chart that showed how a fund's charge compared to those of similar funds also needed to use the OCF as transaction costs are not comparable. This is not only due to the fact that different transactions result in different outcomes (which was the reason why they were not included in the impact chart). It is also because the methodologies that we

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[28] London Economics, page 40
[29] London Economics, page 57
[30] Final Report, paragraph 1.26, page 6
[31] London Economics, pages 19-20
[32] London Economics, page 6
[33] See Occasional Paper 32, pages 15-16
[34] This was highlighted in the IA response to the AMMS Interim Report where we also presented empirical evidence to show that there was no causal link between transaction costs and performance. See IA response, Exhibit 12, page 42 and paragraphs 181-183, page 52. Additionally, it was covered in the AMMS, where a similar type of impact chart presented in the Interim Report that was showing a linear impact for both OCF and transaction costs on returns (Figure 1.2), was subsequently retracted in the Final Report (see Final Report, paragraph 7.8, page 45).

now see emerging for the calculation of implicit transaction costs in the context of MiFID II are not uniform across, not only different firms, but also across asset classes.

The review screen shows the total costs and charges but the paper is quite clear that the reason why the authors believe the review screen is more effective in changing investor behaviour is the inclusion of the comparator chart. More specifically, the paper stated: *"The comparator chart is the component of the review screen that can explain this improvement in respondents' understanding, as this chart presented information about how the OCF of the chosen fund compared to the market average for UK equities"*.[35]

This reinforces the need to consider in more depth the implications of the aggregation of charges and transaction costs, particularly given that product charges and transaction costs behave differently. It also raises the question of how to best ensure that investors understand the OCF in the context of MiFID II aggregation that will include wider costs including platform and advice. As we highlight in our IPMS Interim Report response, we are fully supportive of greater transparency throughout the delivery chain, and look forward to further consumer research to help deliver this most effectively.

[35] London Economics, page 42