THE
INVESTMENT
ASSOCIATION
INVESTMENT MATTERS

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Dear Clive,

RE: CP19/12: Consultation on Investment Platforms Market Study remedies

The Investment Association[1] welcomes the opportunity to respond to the Consultation on Investment Platforms Market Study remedies.

Overall, we support the proposals to require platforms to offer in specie transfers to investors wishing to exit their service, but remain in the fund on another platform.

The IA therefore supports an industry-wide initiative to implement a common standard amongst firms that would involve fund managers offering a common clean share class to be used by all platforms. The IA is of the opinion that increased automation in this respect would lead to greater operational efficiency, to the benefit of investors.

The IA notes the discussion on the abolition of or cap on exit fees charged by platforms. The IA recognises the need for investors, both those exiting a platform and those remaining, to be treated fairly and in their best interests. We encourage the FCA only to regulate firms' pricing structures as a last resort.

We note, from the Final Report, that the UK Platform Group has committed to take forward work to identify improvements to support consumer understanding and enable easier

[1] The Investment Association is the trade body that represents UK investment managers, whose 200 members collectively manage over £7.7 trillion on behalf of clients.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks & shares ISAs.

The UK is the second largest investment management centre in the world and manages 35% of European assets.

More information can be viewed on our website.

platform comparison, including charges. We fully support any initiative to increase consistency and transparency for investors, particularly in the area of costs and charges and ask that the IA be involved in such work.

Thank you again for the opportunity to respond and I would be happy to discuss this response with you further.

Yours sincerely,

Rachel Ellison

Fund Compliance Specialist

RESPONSE TO CONSULTATION QUESTIONS

Executive Summary

The IA welcomes the consultation and discussion on proposed remedies arising from the market study on investment platforms. We note that it is currently not appropriate to consult on proposals that may seek to remedy some issues raised in the final report of the market study, for example, the presentation of costs and charges and model portfolios.

Specific Issues

We respond in detail to the FCA's consultation questions below. There are two key messages in our response:

1. Creation and adoption of an industry framework for transfers. The IA supports greater standardisation, automation and improved operational efficiency when dealing in authorised investment funds. As such, we have been closely involved in and support the work being undertaken by the Transfers and Re-registration Industry Group ("TRIG") and the STAR initiative and advocate the industry adopting the framework at each point in the process, not just at platform level. FCA endorsement of the framework would encourage such adoption.

The framework should encourage platforms to offer a common share class to enable in-specie transfers to routinely take place. It also could include standards on unit class conversion to encourage firms to ensure that the investor is placed in the best possible position. However, such guidance should bear in mind that there may be other issues to take into consideration which mean that a discounted share class is not always in the best interests of the investor.

Adoption of the framework by the industry as a whole and of new systems by individual firms will take some time. As such, the IA requests that the industry be given two years to implement the rule changes, with the two years running from the date of publication of the policy statement.

2. Regulation of pricing. The discussion on exit fees includes a proposal to ban platforms from charging exit fees, and the use of a price cap is also discussed. The IA recognises the need for investors, both those exiting a platform and those remaining, to be treated fairly and in their best interests. In this respect, the IA considers the important issue is that the fee charged is fair in relation to the administration costs incurred and that all charges are clearly disclosed to investors in a manner that can easily be understood and investors should be able to make a meaningful comparison between providers.

The IA is of the opinion that price regulation should be a tool of last resort and should not be used by the FCA as standard. IA members have different views on the banning of an exit fee, although opposition to a charge cap is almost universal. Some firms would prefer the presentation of a single fee, as they consider this to be the most transparent way to present charges. Other members disagree with the concept of "loyal" investors contributing to the costs of those that exit the platform arrangement. It has also been argued that it would be difficult to estimate the number of investors that would exit the platform in order

to produce a reliable and fair figure to include in the overall charge to cover the administration of exits.

Q1: Are you aware of any material obstacles firms may face in implementing the proposed requirement that consumers moving investments in units in funds common to the ceding and receiving platforms should be given the option of an in-specie transfer (in addition to other options the platform may offer)?

1. The IA supports the FCA's proposal to require firms to offer investors an in-specie transfer when moving investments in units common to both platforms. To reiterate the FCA's points, there are several benefits for investors in taking the in-specie option, rather than cashing out:

    - Investors will not need to be out of the market and exposed to potentially adverse market movements for the time it takes to raise the redemption proceeds and reinvest the money.

    - There will be no tax liability to investors, which can arise if investments are sold.

2. The IPMS found that investors may be put off from moving their holdings from one platform to another, if in specie transfers are not available or are not performed efficiently. In the interests of effective competition, movement from one platform to another should be a relatively simple process that does not cause significant disruption to the investor.

3. The IA has seen some examples of good practice within the industry in relation to in-specie transfers. Members have, however, reported obstacles in moving investments in some cases. Examples given are that some holdings are difficult to re-register and a lack of common share class between two platforms. Furthermore, there is a concern that platforms do not always offer the whole range of options for investors. For example, not all platforms offer Property Authorised Investment Funds (PAIFs), meaning investors accessing retail property funds through those platforms cannot obtain the tax advantages of holding a PAIF.

4. Some members have reported difficulties where a fund is transferred from a non-platform holding, i.e. a product such as a SIPP or a direct holding with a discretionary investment manager or the fund manager and have encountered significant delays when receiving these holdings onto their platforms.

5. Additionally, a move to a share class common to the two platforms would in many cases result in moving an investor to a more expensive share class and the consequences of this would need to be made explicit to the investor before the conversion takes place.

6. The IA supports greater standardisation, automation and improved operational efficiency when dealing in authorised investment funds. We encourage initiatives that have been launched to streamline the transfer process and result in a common approach taken across the industry, including with regards to investor communication and disclosure. In particular, we have worked closely with other trade bodies to produce the industry-wide framework for improving transfers and re-registrations. The IA supports STAR in ensuring widespread adoption of this industry standard.

7. The IA encourages, as part of standardisation, firms to ensure that they have a common share class to allow transfers to routinely take place. This could involve, e.g. all platforms being required to routinely offer the basic retail share class and we would suggest that fund managers be asked to identify a clean share class in each

of their funds which they are prepared to make available to all platforms. We do note, however, that this could place an administrative burden on platforms that tend to only offer discounted share classes.

Q2: Are you aware of any material obstacles firms may face in implementing the proposed requirement that ceding platforms should request conversions on behalf of consumers, where this is necessary to support the consumer's request to transfer their units to a new platform on an in-specie basis?

8. Member firms have reported that there will be an increase in the number of conversions performed by ceding platforms, which will lead to increased administrative costs for platforms and fund managers, although it is not clear whether these costs would be significantly different to the costs of selling the holding and transferring the proceeds to another platform. Again, we support the adoption of an automated industry-wide standard. While this could have significant set-up costs, it would, in the long term, lead to a more efficient process, with less chance of error. FCA endorsement of the STAR framework would encourage the industry to adopt it and to incur these set-up costs.

Q3: Are there any circumstances where platforms would not be able to take the necessary steps to bring about the conversion of unit classes to enable an in-specie transfer? For example, would our rule need to apply to other firms that may be involved in the process?

9. Platforms are unable to convert non-UK funds and those not authorised by the FCA without the full cooperation of the fund manager.

10. As detailed above in paragraph 7, fund managers should identify a clean share class in each of their funds that they are prepared to make available to all platforms to facilitate an in-specie transfer.

Q4: Do you agree that receiving platforms, as part of the transfer process, should give consumers the option to request conversion of their units into a discounted unit class, where this is available to them at the receiving platform? If not, why?

11. Yes, we agree that investors should be given the option of converting to the unit class that provides them with the best outcome. Indeed, firms should, under COBS 2.1.1R (1) "act in accordance with the best interests of its client".

12. However, platforms must bear in mind that a discounted unit class may not be in the investor's best interests, when, for example, other charges are taken into account or there is a rebate arrangement in place in the original share class. The benefits (or otherwise) to a conversion should be made explicit to the investor to allow them to make an informed decision. In addition, investors should be given sufficient time to respond, including being given an option to convert their holding to the discounted share class at any time while they are invested through that platform.

13. The FCA's Finalised Guidance on unit class conversions[2] envisages AFMs undertaking a mandatory conversion of units where the prospectus allows for this and the client's best interests rule is satisfied. We see a disconnect between the Finalised Guidance and the proposals in this consultation paper, which requires investors to explicitly agree to a conversion. As it has been seen historically that investor engagement can be poor, it would be beneficial for platforms to be required to convert holdings

[2] FG18/3: Changing clients to post-RDR unit classes

to a discounted unit class where they conclude that it would be in the investor's best interests, unless the investor explicitly requests that this does not happen. Vulnerable investors are likely to be disproportionately disadvantaged if they are required to make an explicit request whereas putting the onus onto firms would see this disadvantage removed.

14. As mentioned above, the IA is supportive of industry initiatives to standardise the process and a conversion process should be included in industry guidance.

Q5: Do you agree with the planned implementation date of 31 July 2020? If not, why not, and what alternative timeframe would you suggest?

15. The IA supports the implementation of a standardised, automated process to improve efficiency. Implementation and adoption of an industry-led framework and the associated automated systems is likely to take some time, whereas the current timescale could only be implemented using more manual methods. Bearing in mind the number of other regulatory changes being made by firms in the near future, we are of the opinion that the industry needs a sufficient amount of time to get a system in place that will be prone to minimal errors and subject to lower ongoing costs and we ask that the FCA adopts a timeframe of two years after the publication of the policy statement.

Q6: Do you agree that an exit fee should be defined as in paragraphs 4.10 – 11 above, and should include all charges associated with consumers' exit from the service?

16. The IA agrees with the FCA's definition of an exit fee, namely that all charges associated with an investor's exit from the platform. In particular, we see it as important to recognise that a fee charged for a conversion under the other proposals is seen as part of the overall exit fee as the FCA proposes.

Q7: If you do not agree with our proposed definition, what charges should be excluded and how should exit fees be defined?

17. We agree with the proposed definition.

Q8: To what extent would the banning of exit fees mitigate barriers to switching in relation to platforms and firms offering comparable services?

18. Exit fees are one barrier when it comes to switching from one platform (or firm offering comparable services) to another. However, the principle of clear price disclosure is paramount and exit fees can have their place where they are fair in relation to the administration costs of an exit and where investors are fully aware what amount of fee will be charged in which circumstances.

19. On this point, the IA has a concern that price regulation is a substantial intervention and should only be used as a last resort. Intervention on firms' pricing models can have unintended consequences, for example the reduction of competition. The IA generally opposes excessive price regulation, but we are mindful of the need to treat investors that leave platforms carefully and ensure their fair treatment.

20. As regards the banning of exit fees, our members have differing opinions. It is stated in the consultation paper that platforms and firms offering comparable services may incorporate costs associated with processing investor exits into the overall platform charge. Some firms are of the opinion that by charging all investors on a platform, investors not wishing to move will also be paying the costs associated with a minority of investors leaving the platform. Some firms welcome a ban, as they would prefer to present one overall fee to investors.

21. IA members have also commented that there is a danger in focusing on one type of fee in isolation without considering the impact of the charging structure as a whole.

22. As alluded to above, the primary concern here is that all fees charged by platforms and firms offering comparable services should be disclosed clearly to investors in a manner that makes it easy for them to understand and compare between platforms. We look forward to working with the platforms as they consider further the overall presentation of charges and costs.

Q9: If we introduce a ban or a cap on exit fees, should it apply to firms offering comparable services as scoped in paragraph 4.16? If not, what are the reasons why a ban/cap should or should not apply to particular types of firms or service?

23. The IA agrees that, if implemented, there should be consistency and any cap or ban should apply to firms offering comparable services to platforms.

Q10: If your firm is in the wider scope of firms offering comparable services as described in paragraph 4.16, do you currently apply any exit fees associated with these services? If so, please describe the nature of these fees.

24. The IA has no comment on this question.

Q11: If your firm currently charges exit fees (as defined in paragraphs 4.10 – 11), what would be the impact of a ban on these fees? For example, do you envisage that other charges would be implemented or raised to compensate for the loss of income?

25. The IA has no comment on this question.

Q12: If your firm is a product manufacturer as well as a distributor as defined, what exit fees are applied within the products and services you offer to clients? If these fees exist, please provide a rationale for this charging model.

26. The IA has no comment on this question.

Q13: How might a ban on exit fees be defined in such a way as to avoid a "waterbed effect" where firms are able to replace them with new product/wrapper-related exit charges?

27. The IA has no comment on this question.

Q14: How prevalent are cases where product-related exit fees pose a similar or greater barrier to switching in the investment platforms and comparable services market?

28. From our understanding, product-related exit fees are not extensively used by investment funds.

Q15: What is your view on the IPMS Final Report's conclusion that a ban on exit fees would be more appropriate than a cap? If you disagree with the proposal, please provide your reasons.

29. As stated above there is no consensus amongst IA members on whether an exit fee is appropriate within the platforms industry. However, members do agree that a cap would not be appropriate. The introduction of a cap would need to be a "one size fits all" approach, which would not take account of the different types of relationship with and services provided to investors. With that in mind, we are of the opinion that market forces would prevent platforms and firms providing similar services from charging too high a fee and therefore feel that a mandatory cap is unnecessary.

Q16: What is your view on the reasonableness of allowing the recovery of third party costs?

30. The IA agrees that firms should be able to recover third party costs, where legitimate and reasonably incurred.

Q17: Do you agree with our Cost Benefit Analysis? If not, please explain why and provide details.

31. We note that the costs of systems adaptation will not be confined to platforms, but will also include other firms in the distribution chain. We reiterate our support for the initiative to be taken forward by the UK Platform Group and again ask that the IA be involved in this work.