

FCA publishes final report into asset management sector

Alert | 30 June 2017



Introduction

On 28 June 2017, the FCA published the [final findings of its asset management market study](#). The FCA launched the market study in November 2015, to assess whether institutional and retail investors get good value for money when purchasing asset management services.

Key points

- Investment consultants face a potential reference to the Competition and Markets Authority (“CMA”).
- The FCA’s report confirms its interim findings and sets out the package of remedies it intends to take forward to address its concerns in relation to the asset management market.

Background

Asset managers manage the pensions and savings of millions of investors, with the UK market being the second largest in the world.

On 18 November 2016, the FCA published its [interim findings](#), which set out its provisional view on the way competition works for asset management services, the resulting outcomes for investors and its proposed remedies to address the concerns it identified.

A consultation on its proposed “package of measures” closed on 20 February 2017. The measures seek to “make competition work better”, and to protect those least able to engage actively with their asset manager. They include requiring increased transparency and standardisation of costs and charges information for institutional investors, and exploring the potential benefits of greater pooling of pension scheme assets.

Final findings

The FCA’s final findings are broadly consistent with those set out in the interim report:

- There is weak price competition in a number of areas of the asset management industry.
- There is no clear relationship between charges and the gross performance of retail active funds in the UK.

- Worse performing funds are more likely to be closed or merged into better performing funds.
- The FCA has concerns about how asset managers communicate their objectives to clients.
- Investors' awareness and focus on charges is mixed and often poor.
- Smaller institutional investors, typically pension funds, find it harder to negotiate with asset managers and generally rely more on investment consultants when making decisions.
- The FCA has identified concerns in the investment consulting market.
- Retail investors do not appear to benefit from economies of scale when pooling their money together.

Proposals

The FCA's package of measures are intended to:

- strengthen the duty on asset managers to act in the best interests of investors
- provide greater protection for investors
- enable investors who are able to, to exert greater competitive pressure on asset managers
- increase the transparency of costs
- improve the effectiveness of intermediaries for both retail and institutional investors.

These measures, which fall into three areas (see below) are designed to support and complement relevant recent and forthcoming regulatory changes, such as the Markets in Financial Instruments Directive ("MiFID") II, Packaged Retail and Insurance-based Investment Products ("PRIIPs") and the Senior Managers and Certification Regime ("SM&CR").

Remedies which provide protections for investors who are not well placed to find better value for money

The FCA:

- proposes to strengthen the duty on fund managers to act in the best interests of investors through clarifying its expectations around value for money, increasing accountability through the SM&CR and introducing a minimum level of independence in governance structures
- is consulting on requiring fund managers to return any risk-free "box profits" to the fund and disclose box management practices to investors (box profits can be generated when the creation and cancellation prices for units differ from the offer and bid prices)
- wants to make it easier for fund managers to switch investors to cheaper share classes and is seeking views on whether it should consider phasing-in a sunset clause to end all trail (ongoing annual) commissions.

The FCA published a consultation alongside this report which proposes to change the way in which it regulates authorised fund managers. The consultation closes on 28 September 2017.

Remedies which will drive competitive pressure on asset managers

The FCA:

- will continue to support the disclosure of a single all-in fee to investors. (This would include the asset management charge and an estimate of transaction charges)
- supports the consistent and standardised disclosure of costs and charges to institutional investors and recommends both industry and investor representatives agree a standardised template
- will chair a working group to consider how to make fund objectives clearer and more useful for investors
- proposes to consult to clarify that, where managers present past performance, they must do so against the most ambitious target held out to investors.

Proposals to improve the effectiveness of intermediaries

- Following the FCA's consultation on making a market investigation reference to the CMA to further investigate the investment consultancy services, the three largest investment consultants provided undertakings in lieu of reference. These included improving tendering processes, greater disclosure of fees and performance information and putting in place detailed conflicts of interest protocols. The FCA proposes to reject these undertakings and is seeking views on this action. It expects to make a final decision in September 2017.
- The FCA recommends that HMT considers bringing investment consultants into the FCA's "regulatory perimeter".
- The FCA will be launching a market study into investment platforms.

Effect on pension schemes

The FCA adds its support to the possible consolidation of pension schemes put forward in the Government's pensions Green Paper (see our [Alert](#)), the aim being to achieve greater economies of scale and cost savings. In particular, it recommends that the DWP continues "to review and, where possible, **remove barriers to pension scheme consolidation**".

Next steps

As noted above, the FCA has issued two consultations alongside this report which deal with certain of its proposals. We can expect further consultations on:

- costs and charges disclosure to retail investors
- benchmarks and performance reporting

later this year. In addition, depending on the outcome of the working group, there may be a future consultation on new rules or guidance in relation to fund objectives.

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