

**MEMO# 30766**

July 5, 2017

# Final Report of the UK FCA's Asset Management Market Study

[30766]

July 4, 2017 TO: ICI Global Atlantic Chapter  
ICI Global Regulated Funds Committee  
International Operations Advisory Committee  
International Operations Working Group RE: Final Report of the UK FCA's Asset Management Market Study

On 28 June 2017, the UK Financial Conduct Authority (FCA) published the final report ("Final Report") of its Asset Management Market Study ("Market Study").[\[1\]](#) The FCA also published a supporting consultation paper (CP) containing draft rules in certain areas examined under the Market Study.[\[2\]](#)

## Summary of findings in Final Report

The FCA published the terms of reference for the Market Study in November 2015,[\[3\]](#) followed by an Interim Report in November 2016,[\[4\]](#) to which ICI Global responded.[\[5\]](#)

In the Final Report, the FCA confirms its findings from the Market Study, many of which are broadly consistent with those in the Interim Report. The FCA highlights the following findings from its analysis:

- weak price competition in a number of areas of the asset management industry;
- substantial variation in the performance of funds across and within asset classes but, on average, that neither actively managed and passively managed funds outperform their own benchmarks after fees;
- no clear relationship between changes and the gross performance of retail active funds in the UK;
- concerns about how asset managers communicate their objectives, including active funds that offer similar exposure to passive funds, but charge significantly more for this;
- mixed investor awareness and focus on charges and evidence to suggest a significant number of retail investors are not aware they are paying charges for their asset management services;
- retail investors do not appear to benefit from economies of scale when pooling their money together through direct – to – consumer platforms.

The FCA sought to clarify the findings presented in its Interim Report in the following two

respects, both of which were addressed in ICI Global's comment letter:

- the FCA's interim findings were not intended to suggest that passive funds were preferable to active funds, but rather that investors should understand both the total cost of investing and the objectives of the fund or mandate they are investing in, so that they can choose the product that best meets their needs;
- that price clustering for retail funds and broadly stable charges for active funds does not necessarily mean that prices are above their competitive level. The FCA added, however, that when combined with the level of profitability of asset managers, this in their view indicates that price competition is not working as effectively as it could be.

## **Proposed remedies in Final Report**

The FCA has proposed a package of remedies to address its findings from the Market Study. The remedies fall into the following three categories:

(i) Remedies which provide protections for investors who are not well placed to find better value for money: -

- Strengthened duty on fund managers to act in the best interests of investors, including through: (i) clarifying expectations around value for money; (ii) increasing accountability through the Senior Managers and Certification Regime (SM&CR),[\[6\]](#) which will be extended to asset managers; and (iii) introducing a minimum level of independence in governance structures;
- Seeking views through the accompanying CP on introducing a phased-in sunset clause for trail commissions;
- Other changes proposed in the accompanying CP, including requiring fund managers to return box profits to the fund and making it easier for investors to switch to cheaper share classes.

(ii) Remedies which will drive competitive pressure on asset managers;

- Supporting the disclosure of a single all-in-fee to retail investors and consistent and standardised disclosure of costs and charges to institutional investors;
- Setting up a working group to consider how to make objectives clearer and more useful for investors and consulting on how benchmarks are used and performance reported; and
- Recommending that the UK Government's Department for Work and Pensions remove barriers to pension scheme consolidation and pooling.

(iii) Proposals to improve the effectiveness of intermediaries

- Launch a market study into investment platforms, the terms of reference for which will be published in around one month;
- Seek views on a market investigation reference regarding the institutional advice market to the UK's Competition and Markets Authority (CMA); and
- Recommend that the UK Treasury brings investment consultants into the FCA's perimeter of regulation.

## **Consultation Paper**

The FCA published a CP ("CP 17/18") alongside the Final Report. CP 17/18 contains proposals including on:

- strengthening 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.

In the context of the FCA's proposals to switch investors into cheaper share classes, the FCA also raises a question about whether it should intervene to stop the payment of trail commission on the distribution of asset management products and, if so, over what time period such an intervention should take effect.

In addition to the proposals above, CP 17/18 also contains a discussion about whether the FCA's remedies, including those relating to governance, should be extended to other retail investment products including unit linked products, pensions and investment companies.

## Next Steps

The FCA is requesting comments on CP 17/18 by 28 September 2017 via an online response form.<sup>[7]</sup> The FCA plans to publish the following consultations at a later stage:

- costs and charges disclosure to retail investors to be consulted on later this year;
- benchmarks and performance reporting to be consulted on later this year; and
- convening a working group on objectives and consulting on any rule changes at a later stage, subject to the outcome of the working group.

The FCA will also publish a consultation on extending the Senior Managers and Certification Regime (SM&CR) to other firms beyond banks, including to asset managers, shortly. This consultation will be of relevance given the governance related remedies proposed by the FCA in the Final Report of the Market Study.

Giles Swan  
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## endnotes

[1] Asset Management Market Study: Final Report, MS 15/2.3, June 2017, *available at* <https://www.fca.org.uk/publication/market-studies/ms15-2-3.pdf>

[2] Consultation in implementing asset management market study remedies and changes to the Handbook, June 2017, *available from* <https://www.fca.org.uk/publication/consultation/cp17-18.pdf>

[3] Asset Management Market Study: Terms of Reference, November 2015, *available from* <https://www.fca.org.uk/publication/market-studies/ms15-02-1.pdf>

[4] Memo 30490, Re: Interim Findings of the UK FCA's Asset Management Market Study, dated 20 December 2016, *available from* <https://www.iciglobal.org/iciglobal/pubs/memos/memo30490>

[5] Memo 30586, Re: ICI Global Comment Letter on the Interim Report of the UK FCA's Asset Management Market Study, dated 20 February 2017, *available from* <https://www.iciglobal.org/iciglobal/pubs/memos/memo30586>

[6] <https://www.fca.org.uk/news/news-stories/senior-managers-and-certification-regime-one>

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[7] <https://www.fca.org.uk/cp17-18-response-form>

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