

MEMO# 30586

February 20, 2017

ICI Global Comment Letter on the Interim Report of the UK FCA's Asset Management Market Study

[30586]

February 20, 2017 TO: ICI Global Regulated Funds Committee

ICI Global Steering Committee

International Committee

International Investing Subcommittee

International Operations Advisory Committee

International Operations Working Group RE: ICI Global Comment Letter on the Interim Report of the UK FCA's Asset Management Market Study

As previously advised,[\[1\]](#) on 18 November 2016, the UK Financial Conduct Authority (FCA) published a report of the interim findings of its year-long assessment of the asset management market and how asset managers compete to offer value for money. In its interim report ("the Report"), the FCA claims evidence suggests that there is weak price competition, as well as other issues, which together raise concerns about how effectively competition drives value for investors. The FCA raises specific concerns that certain types of funds, both active and passive, do not deliver value for money. The Report also includes various references to the US market and research on US funds. In addition, the FCA considered US regulated fund governance under the Investment Company Act of 1940.

On 17 February 2017, ICI Global filed a response to the interim report (attached), including providing an annex assessing competition and second annex describing US fund governance, with the following key comments:

- The UK fund management industry is highly competitive, with a large number and variety of funds and fund providers competing for assets. UK investors have incurred lower fund charges over time, in both active and passive funds. In addition, comparing fund charges and expenses in the United Kingdom with those in the United States supports this assessment;
- Active and passive funds compete head on and provide choice to the benefit of investors. The primary goal of most investors is not narrowly to "beat the benchmark." Rather, it is to build a portfolio that delivers favorable returns and meets their financial objectives consistent with their risk tolerances. Active and passive funds both can help investors meet these objectives;
- Regulators need not "tip the scale" toward one type of product or another. The

market at large, consisting of myriad investors acting in light of their own needs and preferences, is best placed to determine what fund offerings are appropriate;

- The intermediation of funds must be assessed to better understand investor choice and competition;
- While a robust fund governance structure can promote competition, it is primarily a tool to address and mitigate conflicts of interest. As IOSCO has observed, there are a range of approaches to fund governance globally that are calibrated for specific local laws and circumstances;
- Given the scale and complexity of changes posed by Brexit, along with current regulatory changes, we urge caution. While well intended, new regulatory initiatives during a period of unprecedented disruption could harm rather than benefit competition and investors.

Next Steps

The FCA intends to publish its final report and remedies on the market study later this year. It has also proposed further work on the retail distribution of funds, particularly on the impact that financial advisers and platforms have on value for money.[\[2\]](#)

Giles Swan
Director of Global Funds Policy, ICI Global

[Attachment](#)

endnotes

[\[1\]](#) Memo 30490, Re: Interim Report of UK FCA Asset Management Market Study, available from <https://www.iciglobal.org/portal/site/ICI/menuitem.9ad35c6866c5fcca09ce3110b52001ca/?vgnextoid=7751ce9525719510VgnVCM100000650210acRCRD&vgnextchannel=304db7b54e26b310VgnVCM1000005a0210acRCRD&vgnextfmt=global>

[\[2\]](#) Paragraph 1.59, page 22, Report and also references in the FCA's 2015/2016 and 2016/2017 Business Plans, available from <https://www.fca.org.uk/publication/corporate/business-plan-2015-16-annex-1.pdf> and <https://www.fca.org.uk/publication/corporate/business-plan-2016-17.pdf>