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FCA ASSET MANAGEMENT MARKET STUDY - FINAL REPORT

The FCA has published the Final Report of its Asset Management Market Study. This follows consultation on the interim report which was published in November 2016.

The headlines are:

- A strengthened duty on fund managers to act in the best interests of investors.
- A minimum of two independent directors on fund managers' boards.
- A requirement to disclose a single all-in fee, plus standardised disclosure of costs and charges to institutional investors.
- A working group on making fund objectives more useful; and on use of benchmarks and performance reporting.
- A market study into investment platforms.
- Final decision on whether to refer the institutional advice / consultancy market to the Competition and Markets Authority to be published in September.

Most of these proposals were well trailed in the interim report. Those likely to give rise to the most comment are the all-in-fee and the governance proposals. But neither of these represents a significant shift from what is already included in MiFID II, PRIIPs and the Senior Managers Regime.

The interim report found that price competition is weak in a number of areas of the industry. Despite a large number of firms operating in the market, the FCA found evidence of sustained, high profits over a number of years. The FCA also found that investors are not always clear what the objectives of funds are and fund performance is not always reported against an appropriate benchmark. In addition, the FCA found concerns about the way the investment consultant market operates.

The final report confirms the findings set out in the interim report.

The remedies which the FCA is proposing fall into three areas:

To help provide protection 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, with a greater emphasis on considering value for money. The FCA will use the Senior Managers Regime to bring individual focus and accountability to this.
- Require fund managers to appoint a minimum of two independent directors to their boards.
- Introduce technical changes to improve fairness around the management of share classes and the way in which fund managers profit from investors buying and selling their funds. Any box profits will have to be returned to funds.

To drive competitive pressure on asset managers, the FCA will:

- Support the disclosure of a single, all-in-fee to investors to include an estimate of transaction charges.
- Support the consistent and standardised disclosure of costs and charges to institutional investors.
- Recommend that the Department for Work and Pensions remove barriers to pension scheme consolidation and pooling.
- Chair a working group to focus on how to make fund objectives more useful and consult on how benchmarks are used and performance reported.

To help improve the effectiveness of intermediaries, the FCA will:

- Launch a market study into investment platforms.
- Seek views on rejecting the undertakings in lieu of a market investigation reference regarding the institutional advice market to the Competition and Markets Authority (CMA) offered by Aon Hewitt, Mercer and Willis Towers Watson. The FCA expects to publish a final decision on whether to make a market investigation reference to the CMA in September 2017.
- Recommend that HM Treasury considers bringing investment consultants into the FCA's regulatory perimeter.

The final report states that implementation of the remedies will take place in a number of stages. Some do not require consultation and are being taken forward immediately.

The FCA has published a consultation paper focusing on the remedies related to governance and technical changes to promote fairness for investors. The deadline for responses to the consultation is 28 September 2017.

The FCA has also published a consultation on rejecting the undertakings in lieu of a reference to the CMA. The deadline for responses to the consultation is 26 July 2017.

Some remedies will require further work in light of other legislative initiatives, including MiFID II. These remedies will be consulted on later in the year. Other measures are dependent on the outcomes of proposed working groups. The final report includes details of the timetable.

We will shortly publish a longer note on the final report.

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