RPC

FCA market study findings

Asset management sector

One year on from the FCA's launch of its market study in November 2015 on the asset management sector, the regulator's interim findings suggest there is more to be done to achieve effective competition. It has also proposed some interim remedies, on which it seeks feedback by 20 February 2017.

Findings

How asset managers compete

The FCA found that there is stronger competition on price for passively managed funds, than for actively managed funds. Firms are reluctant to undercut each other by offering lower charges as few believe this would win them new business. The regulator had expected weak pressure on price to be associated with weak cost control, however was surprised by the mixed findings: whilst asset managers were good at managing straightforward, inexpensive charges for simple services (eg safekeeping of assets), they were not so good at controlling costs for services that require more expensive monitoring of value for money (eg on executed trades, FX transactions).

Investor behaviour

Fund objectives are not always clear, and performance is not always reported against an appropriate benchmark. Further, there is no clear relationship between price and performance – the most expensive funds do not necessarily perform better than others, and charge more for a similar exposure. The regulator has concerns around how asset managers communicate their objectives and outcomes to investors. Whilst prices for ancillary services are generally clear, firms do not provide an adequate explanation of investment strategy and charges – indeed around half of retail investors surveyed were not aware they were paying fund charges.

Intermediaries

Whilst tools such as "best buy lists" have helped those who invest through a platform find better performing funds, after costs, the recommended funds have not outperformed their benchmarks. Retail investors are not benefitting from economies of scale by pooling their money. Also, investment consultants undertake valuable due diligence for pension funds but are not effective at identifying outperforming fund managers, and there are conflicts of interest in the investment consulting business model which require further scrutiny.

Any comments or queries?

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Proposed remedies

These include: a strengthened duty on asset managers to act in the best interests of investors; introducing an all-in fee approach to quoting charges so that investors can easily see what is being taken from the fund; a number of measures aimed at helping retail investors identify which fund is right for them; clarifying and strengthening the use of benchmarks and providing tools for investors to identify persistent under-performance.

Future plans for further work on the sector

The FCA is consulting on making a market investigation reference to the CMA on the investment consultancy market, and has recommended that HM Treasury considers bringing the provision of institutional investment advice within the FCA's regulatory perimeter. The FCA proposes to do further work on the value provided by platforms and advisers, and is undertaking further analysis to understand implications of fund closures and mergers on the outcomes for investors.

Should you wish to discuss the FCA's latest findings, emerging thinking on potential remedies and/or the regulators' plans for the future, please do not hesitate to contact Anthony, Lambros, or Robbie or your usual contact at RPC.

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