THE
INVESTMENT
ASSOCIATION
INVESTMENT MATTERS

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Laura Bonacorsi
Strategy & Competition Division
Financial Conduct Authority
25 The North Colonnade
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By email to: cp15-32@fca.org.uk

Date: XX December 2015

Dear Ms Bonacorsi,

RE: Chapter 3 of CP 15/32 Smarter Consumer Communications: Removing ineffective disclosure requirements in our Handbook

ABOUT THE INVESTMENT ASSOCIATION

The Investment Association represents UK investment managers. We have over 200 members who manage more than £5.5 trillion for clients around the world. Our aim is to make investment better for clients so they achieve their financial goals, better for companies so they get the capital they need to grow, and better for the economy so that everyone prospers.

We cover every link in the investment chain:

- We work with investors, helping them to understand the industry and the options available to them. We know investing can seem daunting, so we work hard to make it clear and accessible.
- We work with investment managers, promoting high standards and the need to put clients first. Our work includes helping members to manage money efficiently and communicate effectively.
- We work with the companies we invest in, helping them to achieve better long-term results and, ultimately, greater returns for investors and the economy.
- We work with regulators and governments around the world. We've built close, trusting relationships with these bodies and play an active role in shaping the rules that govern the industry.

The Investment Association's purpose is to ensure that investment managers are in the best possible position to help people build resilience to financial adversity, achieve their financial objectives and maintain a decent standard of living as they get older. It is also to help investment managers maximise their contribution to economic growth through the efficient allocation of capital.

RESPONSE FROM THE INVESTMENT ASSOCIATION

The Investment Association welcomes the opportunity to respond to Chapter 3 of this general consultation about removing ineffective disclosure requirements from the FCA's Handbook.

We commend the FCA for undertaking a review of its various disclosure requirements and its proposal to get rid of items it has concluded are ineffective. One of these is the production of short reports.

We fully agree with the FCA's proposal to remove the requirement to produce short reports.

In addition to the reasons given by the FCA for taking this step, it is also potentially beneficial to fund investors as the UK regulatory requirement to produce short reports and to send them to unitholders represents a cost which may be borne by those investors.

The requirement to send short reports extends to unitholders named on the register. However, an increasing number of retail investors are choosing to invest through intermediaries such as platforms. As noted by the FCA, these investors do not in any case automatically receive short reports. The requirement makes no distinction between different types of unitholders and as such short reports are also sent to eligible counterparties and professional investors, for whom typically the short report is not relevant or helpful – such investors will typically request a copy of the long report.

As the FCA will be aware, the UK requirement to both produce and send short reports represents a gold-plating of the UCITS Directive. This Directive, Europe's highly successful product directive and designed with retail investors in mind, sets the disclosure requirements which the EU Commission, Parliament and Council view as necessary to meet retail investors' information needs.

Under the UCITS Directive, there is no requirement to produce and send short reports. The requirement is to make available annual and half-yearly reports (known as long reports in the UK) to investors *"in the manner specified in the prospectus and the key investor information document"* (Article 75). There is also a requirement to make paper copies available to investors on request and free of charge. In the UK, the "long" report meets this requirement.

The FCA's proposal to remove the short report requirements would therefore bring the UK into line, in relation to the method of making annual and half-yearly reports available to investors, with the other main jurisdictions whose funds are bought by UK investors, in particular Luxembourg and Ireland. Those jurisdictions have taken a 'copy out' approach to implementing the UCITS Directive, and neither require the production and sending of reports. As mentioned in our response to CP13-18, confusion arises where investors hold units in both UK and non-UK funds. Managers have experience of investors who hold both UK and offshore funds and common questions are 'why do I get this for one fund but not another?' and 'why can't you stop sending me these reports?'

This removal of gold-plating is also in keeping with the UK Government's policy, as outlined in HM Treasury's 'The UK investment strategy'[1] paper. The policy is that *"a 'copy out' approach*

[1] The UK Investment Management Strategy, paragraph 4.6

will be adopted wherever possible to implementing European legislation in order to simplify the regulatory approach for firms, with any gold plating supported by strong justification. In addition, the Government will consult closely with the industry to ensure that opportunities to minimise costs and maximise benefits will be identified and implemented."

It is also consistent with HMT's statement[2] (made in the context of its consultation on AIFMD implementation) that "*The Government is committed to eliminating unnecessary gold-plating*".

The importance of taking a 'copy out' approach in the context of UK Authorised Funds can be seen in the confusion to which the production and sending of short reports can give rise. Given that non UK UCITS are bought by retail investors in the UK, it is important investors have access to similar information regardless of fund domicile; the UCITS Directive is designed to achieve just that.

If you would like to discuss any of the points raised in our response further, please contact me on 020 7831 0898 or by email to karen.bowie@theinvestmentassociation.org.

Yours sincerely

Karen Bowie
Senior Adviser, Product Regulation

2 Transposition of the Alternative Investment Fund Managers Directive, paragraph 2.24