

SCM Direct Response to the Investment Association (IA) Enhanced Disclosure of Charges and Transaction Costs - Technical Consultation.

19th May 2017

Introduction

It is a scandal that the UK regulator should allow a heavily conflicted, self-interested, anti-consumer trade body e.g. the Investment Association to be involved in a matter as fundamentally important to consumer rights and protection, such as the disclosure of charges and transaction costs.

There is an overwhelming body of evidence that the Investment Association is significantly conflicted by its boards constitution. Its board is made up by some of the largest UK asset management companies with an overwhelming bias towards active management, high fees and poor fee transparency.

The fact that the IA and its predecessor (the IMA) has fought for decades to deny the existence of hidden fees, and not to mandate that its members reveal charges in an open and transparent manner, shows that allowing the IA to determine a fees and charges code is the equivalent of allowing criminal offenders to determine future prison sentences.

The bias and amateurism of the IA, in particular on the subject of fees and charges, was evidenced by its publication of the 2016 Loch Ness Monster report. The report was intellectually dishonest, highly misleading and completely bereft of substantive analysis. Its findings were based on an arbitrary 2 year and 10-month period and incorporated non-existent fund performance data and misleading benchmark comparisons. Furthermore, it completely ignored the bid/offer spread element of transaction costs that can often be material within transaction costs.

The IA has neither the knowledge, intellect, culture or ethics to handle such an important code.

Q1: Will the information contained in the templates along with the associated disclosures in Part IV of the Code provide pension scheme trustees and IGCs with the cost information they need to facilitate 'value for money' judgements?

No. The templates are not MIFIDii compliant:

- i) Costs and charges to be aggregated – the templates do not aggregate the costs and charges and have been designed by the IA to needlessly confuse retail and professional investors alike. When providing either point of sale or post-sale disclosure to clients under MiFIDii, firms will be required to aggregate:

- all costs and associated charges charged by the firm (or other parties where the client has been directed to such other parties); and

- all costs and associated charges associated with the manufacturing and managing of the financial instruments.
- ii) **Cumulative effect of costs on return** – not shown by any of the templates or detailed even though firms are required to produce an illustration at the point of sale that should:
- show the effect of the overall costs and charges on the return of the investment;
 - show any anticipated spikes or fluctuations in the costs (such as high costs in the first year of the investment (upfront fees), lower costs in the subsequent years (on-going fees) and higher costs at the end of the investment (exit fees); and
 - the illustration is accompanied by an explanation of what the illustration shows.
- iii) **Disclosure on a generic basis** - not shown within the Code on how the costs and charges disclosure may be provided on a generic basis, to ensure the costs and charges are representative of the costs the client would actually bear.

One might assume that it would incorporate a calculation of the costs in monetary terms, assuming an investment amount, rather than the amount that the client is actually investing. The IA code completely ignores this aspect of MIFIDii.

Q2: Does the information in the Code provide MiFID distributors with the information they need to meet their cost disclosure obligations to clients?

No since the IA fails completely to understand MIFIDii and its code flagrantly breaches it.

Q3: Does the information in the Code provide PRIIP manufacturers with the cost information necessary to create the KID?

No since the IA fails completely to understand MIFIDii and its code flagrantly breaches it.

Q4: Is the approach within the template proportionate? Should there be further granularity in relation to asset classes and implicit costs?

No since the IA fails completely to understand MIFIDii and its code flagrantly breaches it. Furthermore, the templates are needlessly complex and confusing.

Q6. Are there specific areas of cost disclosure that require additional consideration?

Not within what is required by MIFIDii rather than the feeble, shoddy manner in which the IA hopes to bypass both the wording and the spirit of the text through its code.

Q7: What would be the best framework for ongoing development and maintenance of the Code?

For it to be formulated by a professional and independent body. The IA is neither.