THE
INVESTMENT
ASSOCIATION

The Investment Association Response to CP24/30: A new product information framework for Consumer Composite Investments

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 49% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Executive summary

We welcome the opportunity to respond to the FCA's Consultation ("CP") on a new product information framework for Consumer Composite Investments ("CCI").

Through the policy development process, the IA has broadly agreed with the aims and many of the principles set out in the original Discussion Paper ("DP") and the current CP. In tandem with reforms to advice and guidance, we view this as an important opportunity to create a more vibrant UK retail investment market that is flexible, presents consumers with decision-useful information and recognises the increasingly digital user experience.

At the same time, we are keen to ensure that the benefits of the new rules for investors clearly outweigh the costs and complexities of the change process for both domestic and overseas funds, and distributors, at a time of major regulatory activity in the UK e.g. Consumer Duty and Sustainability Disclosure Requirements (SDR). Our view is that the estimated £48m implementation cost of CCI is likely underestimated. We are also very focused on ensuring that the lessons of PRIIPs and MiFID are fully learnt to ensure that CCI genuinely results in a better information set for UK retail investors.

Overall, our response highlights a disconnect between the current proposals and the FCA's original vision. We question whether in reality the proposals will deliver the changes envisioned in supporting an improved set of information for investors. We call for more clarity regarding the purpose and shape of the Product Summary and for further consideration of a number of the core metrics supporting it. In moving forward, we suggest a new approach to industry, regulator, and stakeholder dialogue to resolve the challenges arising, given the need for significant reconsideration of these proposals before final rules are made.

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This dialogue can also help address a number of missing elements in the current consultation, which have made it difficult to respond and ensure that the new regime leads to better outcomes for consumers and is viable for industry. The industry has not received timely clarity on amendments to the MiFID costs and charges rules which are critical to ensuring appropriate information is passed along the distribution chain and ultimately determines the quality of the customer experience. Further consultation anticipated in this area needs to address not only matters of alignment with CCI, but also improvements to the detailed specification of the product costs that distributors will be required to provide and the way they are presented. Furthermore, we have not had sight of the consumer research that has been referred to in the CP, and which should form the foundation of any argumentation for the proposed format and metrics.

Purpose and shape of Product Summary

The proposals on the Product Summary reflect a lack of clarity – and a tension between prescription/comparability and flexibility – with respect to what this document or digital medium is designed to achieve.

While flexibility in presentation is welcome in principle, the highly prescribed nature of the information set in the Product Summary, including information such as complaints handling and redress mechanisms, points to a prospectus-lite. The additionally specified function as a record of purchase provided in a durable medium strongly reinforces this and pushes towards an expectation of comparability through the delivery chain. This, in turn, contains a significant assumption about the way in which the consumer journey works in practice, and about consumer capacity and engagement with such materials relative to other sources of information such as factsheets.

If the 'record of purchase' is the core direction of travel, the Product Summary looks very much like a UCITS KIID from a prescribed comparable information perspective. The key challenge is that the additional flexibility will then neither facilitate a new approach to the provision of information nor offset the cost and complexity of the regulatory change process in discontinuing the UCITS KIID. As we discuss below, it also retains some of the most problematic elements of the PRIIPs KID, notably the approach to costs and charges disclosure.

For IA members, this raises three core concerns about the nature of the Product Summary that we cover in our response:

- **The real purpose of the Summary**, and its place in the information and sales process, needs to be clearer, and our view is that this requires a more concise final set of requirements.
- **The relationship between the Summary and other materials** (notably factsheets), which are not, and should not be, subject to specific disclosure regulation, needs further discussion. For example, while some may wish to combine factsheet information with Product Summary information, the level of prescription around the Summary may make this challenging.
- **The allocation of responsibilities between the manufacturer and distributor** requires further consideration and clarification. The proposed 'feedback loop' with respect to the sharing of summary information looks unlikely to work.

Addressing these concerns will, in our view, help to resolve an emerging challenge as to how to balance comparability of information with greater flexibility.

Methodologies in core technical areas

We have a wide range of comments on technical matters arising from the core metrics. On costs and charges, we are concerned by the degree to which flawed methodologies have been carried forward from PRIIPs. This requires a significant rethink, and we set out a clear view as to how decision-useful information could be achieved. We are broadly supportive of the use of methodologies from the UCITS KIID for both risk and

performance, subject to some amendment particularly as regards the approach to risk for certain strategies and product types.

Costs and charges

Our response covers five key areas, attempting to learn from the difficult experiences in PRIIPs (and MiFID) to set out a principled approach that balances the need for decision-useful information with the need also to provide meaningful transparency.

- Summary cost indicator: While the move away from Reduction in Yield and cost over time approaches in PRIIPs is sensible, the continued requirements for the combining of one-off charges, ongoing charges and transaction costs in the summary indicator will be a confusing and inaccurate reflection of how funds operate. The summary cost indicator should be dropped and the emphasis in the Product Summary should be on headline product charges.
- Aggregation: Aggregation in and of itself is not problematic, providing that it is done in a way that adopts an 'apples and apples' approach, rather than 'apples and pears'. In this respect, an Ongoing Charges Figure (OCF) that combines the operating costs of a fund, as is well established in the UK and internationally, is decision useful. Similarly, in the MiFID environment, aggregating an OCF with ongoing platform or adviser costs can also provide a useful 'total cost of ownership' metric.
- Transaction costs**:** In contrast, adding together charges for managing a fund with the transaction costs incurred in delivering a return does not offer helpful pre-sale information. Where an OCF is a clear deduction from a fund, reducing the return in a linear fashion, transaction costs are essential to deliver the return on which fees are charged. They do not behave in a linear way. Transaction costs should be explained in the interests of transparency and ex post accountability but not bundled into pre-sales disclosures. Recent consumer research by the IA has reinforced the evidence base about the challenge of understanding product charge and transaction cost information.
- Different kinds of transaction costs: Within the transaction cost categories, there is a further distinction between explicit costs (monies paid such as brokerage fees and transaction taxes) which are easily quantifiable and implicit costs (market frictions expressed in bid/offer spreads) which are not and are an inherent part of investment return. The slippage methodology used for the latter has proved controversial and an unreliable cost metric (as opposed to a metric that might be used for more sophisticated analysis of trading efficiency). Slippage should be discontinued as a cost disclosure methodology and there should not be a formal methodology specified for the disclosure of implicit costs. Firms instead should be encouraged to explain their transaction costs in the context of the investment strategy deployed within a fund.
- Pull through: The debate over aggregation has also focused on how to treat underlying product costs where investment strategies may require exposure to vehicles such as investment trusts, open-ended funds or other forms of collective. Our view has been – and remains – that aggregating the top-level charge or operating expenses of a fund or investment trust with those of the underlying investment trusts in which it invests will not provide decision-useful information. Indeed, it may provide information that is potentially misleading. The logic of this approach – separating the management cost of a vehicle from the underlying cost of delivering an investment strategy – could in principle carry through to funds of funds or those funds investing in other investment funds. Certainly, funds should be at no disadvantage in a very cost-focused procurement environment. However, there are also reasons why the synthetic OCF for funds should potentially be retained. Further work is required on this. In any eventuality, there should be no differences of treatment between active and indexing strategies.

Risk metrics

There has never been a straightforward way to quantify risk in a way that accommodates either the different facets of investment risk or the different product types that have been included in regimes such as PRIIPs. Equally, the funds industry has long considered that volatility – if described and presented correctly – can be a helpful way to explain to investors both the downside risk and upside potential of a given investment strategy. In that respect, we recommend that the volatility methodology in the draft CCI rules, which we broadly support, be labelled a 'Risk and Return' measure, rather than just a risk score, since it is not a pure form of downside risk measure (e.g., Value at Risk).

That said, there are elements of the proposals that are problematic and require further consideration. These centre on the approach to a range of products and strategies that are considered higher risk because of certain facets that do not sit clearly under a volatility measure. This is not the correct approach. Where the volatility methodology is inappropriate – e.g., for structured products or illiquid strategies – it should not be used and explanations, or appropriate alternative metrics, should be provided instead to help investor understanding.

The IA is also undertaking research to test the new 1-10 risk scale for robustness. This is looking both at the extent to which funds may bunch along the scale, the stability of classification, and the need for a smoothing mechanism. Subject to the results of this research, we will give a final view.

Performance

Presentation of past performance, like risk metrics, has also been a longstanding topic of discussion and disagreement given concerns about the extent to which investors may use it as part of the decision-making process. Consumer research has shown that investors often understand the limitations of past performance but see the data as an important part of the information set. We support the inclusion of past performance as part of the Product Summary.

Way forward: Joint-industry initiative to explore challenges and recommended implementation period

We suggest that the way to resolve these issues is for a further engagement process between industry, regulator, consumer groups and other relevant stakeholders before finalising any rules in this area. This could encompass an innovation sprint to explore these concerns before definitive decisions are taken about the final shape of the proposals. To move the dial on this requires a different approach to the presentation of information as part of the consumer journey, and a testing and development process to validate it.

We need to take the time to get this right and avoid a situation in which the cost and potential complexity of implementation outweigh the benefits as we transition to a more digital delivery environment. This process can be informed by the results of current FCA consumer research. It could also include wider discussion on core technical issues, including costs and charges presentation in the context of the respective responsibilities of manufacturers and distributors (still to be consulted on). This will allow for a more considered and informed debate on the overall shape of consumer communication and engagement.

Further, once the final rules have been agreed, the IA recommends a minimum two-year implementation period, for all products in scope.

Response to consultation questions

THE WIDER CONTEXT

Question 1: Do you have any comments on our approach to applying the Consumer Duty to CCI product information?

We welcome the application of Consumer Duty to CCI. We support the FCA's intent placing an emphasis on a more flexible approach that prioritises good consumer outcomes. We are concerned that the proposals in their current form do not show sufficient ambition to achieve their stated goal and may not lead to an improved information set to investors.

On a broader note, we consider that some of the drafting in the current rules is potentially duplicative and repetitive and would question whether such requirements are needed. We highlight some examples here:

- DISC 2A1.3R(1) and (2) repeating the need for accurate, clear fair, and not misleading information.
- DISC 2A.2.5R(3) duplicating target market information under Consumer Duty.
- DISC 3.2.2R(2) again repeats the need for information to be clear, fair and not misleading.

Question 2: Do you consider the proposed CCI regime can help distributors to assess value for overseas funds? Please explain why or why not.

We consider that it is unlikely the CCI regime itself will change the way in which value assessment takes place, but this is not the purpose of the CCI and we do not see that it should be designed to do so. The fair value assessment by distributors is a separate consideration to the disclosure of key information to investors, and the information that is included in the CCI is information is equivalent to information that is already available to distributors through existing channels, e.g. via the European MiFID Template (EMT) and data vendors. The fundamental issue for distributors is the existence of an explicit requirement on distributors to consider value under Consumer Duty, but the absence of an explicit requirement on overseas funds to undertake an assessment of value. The CCI proposals do not address this situation, nor is this the purpose of the CCI. However, industry-led revisions to the EMT framework in preparation for Consumer Duty were designed to facilitate communication of relevant information by overseas fund manufacturers to distributors, including the transmission of information related to the value offering of the product. We also understand that additional manufacturer-distributor dialogue has resulted in practices evolving that have enabled the discharge of Consumer Duty responsibilities by distributors without the need for further formal intervention by the FCA or other stakeholders.

Question 3: Do you have any comments on the other considerations in Chapter 2, including ESG and Equality and Diversity considerations?

It is welcome that sustainability elements, including labels, can be incorporated into CCI-related disclosures for those who wish to do so. In this context, the wider relationship between CCI disclosures and SDR consumer-facing disclosures needs further thought. For funds with a sustainability label or with sustainability characteristics, our current understanding is that retail investors may see three documents: CCI Product Summary, factsheet, and a SDR consumer-facing disclosure document for those funds that produce them. As we commented in the IA's response to SDR consultation paper (CP22/20), this is not ideal from the perspective of simplicity through the consumer journey. The IA, along with the Wisdom Council, has carried out three research exercises related to sustainability information over the past three years, and results clearly show retail investors want to find all related information in one place and that it will be difficult for the SDR

required CFD alone to give an investors a picture of what the fund sets out to do overall.[1] That said, since the publication of the final SDR rules, firms have now implemented the CFD requirements (and associated costs). Therefore, in keeping with our wider conclusion about the need for further dialogue, we look forward to discussing how firms can be allowed to innovate where they judge it helpful for customers.

APPLICATION OF THE CCI REGIME

Question 4: Do you have any comments on the scope of products included in the CCI regime?

We emphasise a broader point about the ongoing challenge of building disclosure regimes that are broad enough to cover the full range of retail investment products without this resulting in over-complex requirements that do not facilitate core objectives, which remain focused on enabling understanding and comparison within product groups, rather than necessarily across them. It is not giving the correct message to investors to compare products that cannot and should not be compared, which can lead to investor confusion. One of the IA's key principles as articulated in our DP response highlights the need for recognition that a one-size fits all approach across different products does not work, and the need for comparability is not absolute.[2]

Question 5: Do you have any comments on our proposed scope clarifications? Are there any other areas where it would be helpful to clarify the application of the CCI regime?

No comment.

Question 6: Do you agree with our proposal to allow optionality for multi-option products (MOPs)? Do you have any comments on how MOPs should be treated under the CCI regime, in particular how costs, risk and past performance should be presented to account for the range of products within them and the costs of the wrapper?

No comment.

Question 7: Do you agree with our definition for when a CCI is not a retail product and therefore out of scope? If not, please explain why.

We agree that certain products should remain outside of the scope of the CCI regime on account of the fact that they are not intended for the retail market. However, we believe that the proposed exemption should be fully aligned with the Consumer Duty and so the CCI regime should not apply to "non-retail financial instruments" (as currently defined in the FCA handbook). Such an exclusion should replace the proposed narrower exclusion relating only to readily realisable securities which meet certain criteria.

Question 8: Do you agree with our proposed transitional provisions for moving to the CCI regime? If not, please explain why.

Given the complexity of the proposals, we do not agree with the proposed transitional provisions. We recommend that the FCA considers extending the policy development process and by implication,

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[1] 'SDR: Investor and adviser awareness, understanding and expectations,' The IA and The Wisdom Council: Quantitative research findings report, page 46 (2025)
[2] Response to DP22/6: Future Disclosure Framework, The IA (2023)

implementation deadlines. The industry needs to be given sufficient time to review and discuss the proposed methodologies and presentation once the MiFID component(s) of the consultation are issued. Currently, we lack clear guidance on the proposed MiFID rule amendments for distributors, providing an incomplete view of the impact on the distribution chain and the resulting new regime. The FCA has not presented the holistic solution envisaged by government in 2023 having recognised that MiFID plays a key role in determining the costs and charges information that investors see.

Under the proposals, PRIIPs (with the exception of investment companies), UCITS and NURS will have 18 months to comply with the CCI requirements once the final rules are published. However, given that the current exemption of UCITS from producing PRIIPs is set to expire at the end of 2026, the final rules would need to be published by June of this year for the full transitional period to apply. Firms may have an even shorter implementation period than currently specified if the FCA does not publish a Policy Statement in the first half of this year. This timeline presents considerable challenges, and we welcome the increasing recognition of this by regulators. We are looking forward to getting further clarity on practical ways to address this in order to avoid firms having to adopt the UK PRIIPs KID as a temporary measure. If the timeline is not extended the costs for implementation would be increased.

There are also broader concerns given that during the transitional period, firms may follow either the CCI rules or UCITS/PRIIPs requirements, distributors may not be ready to receive the CCI at that time and manufacturers could end up being asked to provide both a CCI and a UCITS KIID to accommodate different degrees of readiness. This could lead to investor confusion and work against consumer understanding.

Question 9: Do you agree with the proposed timeline for closed ended investment companies moving to the CCI regime? If not, please explain what alternative timelines you would suggest and why.

As above, we do not agree with the proposed timeline for investment companies. Imposing the CCI on different products at different times will amplify significant operational challenges for both manufacturers and distributors; for example, firms providing products subject to different transitional periods will have to manage and deliver against multiple compliance timelines. We recommend that the CCI regime is imposed for all products at the same time, to ensure a smooth transition and customer experience. The IA recommends a minimum two-year implementation period, for all products in scope, once the rules have been agreed, and the final policy statement is published.

RESPONSIBILTY ACROSS THE CHAIN

Role of the Product Summary and responsibility throughout the distribution chain

Question 10: Do you agree with our approach, including how responsibility is allocated across the distribution chain? If not, please explain why, and how you think responsibilities should be allocated.

Question 14: Do you agree that manufacturers should be responsible for producing a product summary? If not, please explain why.

Question 15: Do you agree with the proposed requirements for the product summary? If not, please explain why. Do you agree with our proposal not to prescribe its overall design or layout? If not, please explain why and what design requirements you believe we should prescribe.

Question 16: Do you agree with the requirements for distributors to provide the product summary or information within it to potential investors, including the timing of delivery? If not, please explain why.

Question 17: Do you agree with our proposals for providing a product summary in a durable medium if a sale is made? If not, please explain why. Do you have any comments on the requirement of a 'durable medium' for this?

Question 20: Do you have any other comments on what obligations distributors should have in the CCI regime?

The role of the Product Summary and the allocation of responsibilities across the distribution chain are central to the CCI proposals. While we support the intent to provide investors with clear, actionable information, there are fundamental tensions in the Product Summary's design, purpose, and practical implementation that require further refinement. Below, we address Questions 10, 14 to 17 and 20 in a cohesive response, outlining our position and proposing a collaborative approach.

Role of the Product Summary

The FCA's approach correctly designates manufacturers as the primary producers of the Product Summary and underlying product information, ensuring consistency across the market. We acknowledge the flexibility in format and design, which allows firms to engage consumers creatively through graphical elements and plain language, avoiding the rigidity of UCITS KIIDs or PRIIPs KIDs. Our central concern is that the real purpose of the Product Summary in the consumer journey remains ambiguous. As written, the consultation presents it as both a pre-sale decision tool and a post-purchase record, leading to confusion in its design and the allocation of responsibilities. Without greater clarity, the Product Summary risks becoming a prospectus-lite, overly detailed for pre-sale engagement and failing to engage customers and support their understanding. This in turn raises significant questions about the interaction between the Product Summary and other materials, notably the fund factsheet, in simplifying the consumer journey.

For the funds industry, the UCITS KIID evolved from the Simplified Prospectus, reflecting a historic emphasis by regulators on a prescribed format that would provide investors with a record or receipt of standardised information. In this regard, a great strength was comparability across prescribed metrics (such as the Ongoing Charges Figure), while a weakness was a lack of investor engagement.

The PRIIPs KID marked an effort to standardise such core information across multiple different investment vehicles. While we support scrapping the PRIIPs KID, the central challenge for the investment funds industry, which still uses the UCITS KIID, is that the Product Summary looks very much like a UCITS KIID from a prescribed information perspective. The additional flexibility will neither facilitate a new approach to the provision of information nor offset the cost and complexity of the regulatory change process in discontinuing the UCITS KIID. As we explore in detail in our answers to specific later questions, the Summary also retains some of the most problematic elements of the PRIIPs KID, notably the approach to costs and charges disclosure.

Therefore, as framed, we do not see it as an effective way forward for investment funds. One key area of uncertainty in this context is the relationship between the CCI Product Summary and the fund factsheet. The factsheet is a well-established, non-regulatory required disclosure that is more widely used by investors than KIIDs. The IA has heard different views from firms on how these factsheets and the new Product Summary will interact and if there is scope to integrate these materials. While we recognise that the future of the factsheet is not one for the regulator per se, the nature of FCA expectations for the Product Summary, and what the flexibility here really means, is highly relevant for what does happen. The proposed innovation sprint, or industry/regulatory/stakeholder dialogue could explore the issues arising and their implications for the final shape of the CCI rules. As part of this, the transition to a digital future remains a critical consideration, enabling firms to deliver information in dynamic and interactive ways.

Manufacturer and distributor responsibilities

The requirement for distributors to provide the Product Summary (or its information) before investment is logical, but its integration into existing sales processes, particularly digital channels, requires clearer guidance to prevent unnecessary friction. Reflecting our concern about purpose set out above, while providing the Summary post-sale in a durable medium ensures a reliable record, the prescriptive content requirements (e.g., legal identifiers, redress mechanisms) may make it too technical, reducing its consumer-friendliness.

At a broader level, the current proposals do not resolve the uncertainty around regulatory expectations regarding the division of responsibilities between manufacturers and distributors. Distributors we have engaged with have been clear that they see the Product Summary as a manufacturer-driven document and have cited concerns of the liability risks arising from modifying information. For their part, manufacturers also raise concerns with distributors adapting information on the basis that even small amendments can lead to a significant change of emphasis or meaning. This also increases the oversight responsibilities of manufacturers, where changes are being made to information that they have sent to distributors. This potential eventuality is likely to lead to an increase in resources and therefore costs and brings into question the responsibilities of distributors as authorised and regulated persons and entities in their own right.

Distributor-Manufacturer Interaction and Feedback Loops

The proposed framework suggests that distributors should provide feedback to manufacturers regarding any deficiencies or concerns in Product Summaries. However, requiring distributors to systematically review and challenge every manufacturer-provided disclosure would introduce significant inefficiencies and could delay the distribution process. We note that information sharing under the Consumer Duty has presented a number of challenges around allocation of responsibilities throughout the retail distribution chain and what is deemed actionable and proportionate data. The industry has spent significant time and costs to meet this specific distributor feedback requirement. We see similar challenges arising under these CCI proposals which will create further complexity and unnecessary frictions throughout the distribution chain.

More generally, the emphasis on ensuring product information meets Consumer Duty standards is welcomed. However, it is important that firms are not overburdened with duplicative or redundant disclosure requirements, which serve no benefit to the end consumer. There is a risk that the FCA duplicates rules that already exist on the feedback loop between manufacturers and distributors, including the responsibilities prescribed in PRIN. As stated, we require further clarification on this aspect as this is unlikely to work in practice.

Distributors should retain the ability to rely on manufacturer-provided information without unnecessary obligations to validate or supplement disclosures unless a clear consumer benefit is identified.

Industry-FCA Collaboration to develop workable solutions

To resolve these issues, we propose a joint industry-regulatory working group, with consumer representatives and wider stakeholders as appropriate, potentially accompanied by an innovation sprint, before finalising the CCI framework. This would:

- Clarify the Product Summary's role within the investor journey. We see this clarification as central to the way forward, and it should in turn allow the industry to reach a clearer view on the future role of the factsheet.
- Test design options to balance simplicity and comparability with flexibility.
- Refine cost disclosure methodologies to prioritise decision-useful information.
- Address distributor concerns, recognising that they are unwilling to produce additional information that deviates significantly from the manufacturer's Product Summary.
- Explore digital solutions to ensure seamless delivery in a durable medium.

By leveraging the FCA's ongoing consumer testing and consultation feedback, this sprint will help ensure that implementation costs do not outweigh the benefits, supporting the FCA's evolutionary—not revolutionary—approach.

A collaborative, iterative approach will allow for a practical, consumer-focused solution that aligns with the FCA's broader regulatory objectives.

Question 11: Do you agree with the core information manufacturers would be required to prepare? If not, please explain why and what alternative requirements you would suggest.

In general, we support the approach to defining a set of core product information and setting out standardised methodologies for its preparation. Our analysis of the proposed rules indicates that about two thirds of the specified core information is narrative in nature and is therefore more suited to rendering in the product summary document rather than as a data point in core information. This is particularly the case for explanations about costs and charges where some explanations are required as part of the core costs and charges information and other explanations are not core information and are required only in the Product Summary.

Question 12: Do you agree with our proposal that manufacturers should be required to make their underlying product information available to distributors? If not, please explain why.

It is unclear what the purpose of this intervention is because distributors already receive the core information they need to communicate to their clients. This is the commercial reality of the distribution model in the UK and across the continent. It is the driving force behind the European Financial Data Exchange (FinDatEx) and the UK partnerships that are explained further in our answer to question 13.

Question 13: Do you agree with our proposal that manufacturers should be required to make their underlying product information machine-readable? If not, please explain why.

Historically, the industry has developed a range of machine-readable frameworks (both at EU level through FinDatEx and at UK level through the IA and partners) to implement regulatory requirements with respect to core data and these have become the universally accepted standards across the continent.

In our view their success is attributable to convening both the providers and users of the information in an open discussion about the specific information requirements leading to a common agreement about the appropriate solutions. These discussions have enabled the information users to fulfil their regulatory obligations without the need for regulators to place obligations on the information providers, reflecting an outcomes-driven solution.

Therefore, we do not consider it appropriate for the FCA to intervene with rules about machine-readable formats and it should be sufficient for the FCA to define the core information set and leave it to industry to continue to solve the delivery mechanism for itself. The conclusion in paragraph 122 of the cost-benefit analysis that the cost to manufacturers will be negligible because the solutions are already in place is both true and indicative that no intervention is required.

Question 18: Do you agree that we should require unauthorised firms to follow some of our principles for businesses and basic product governance standards when carrying out CCI activities? If not, please explain why. Do you have any comments on the standards that should be set for these?

We consider that the requirements around "unauthorised persons" in DISC 4.4 have been applied too broadly, including to firms who are authorised and operating under frameworks in other jurisdictions that

are recognised by the UK as equivalent, such as EU management companies, AIFMs and MiFID firms. They are therefore already subject to and operating under similar requirements, especially in terms of product governance, approval and target market processes.

The IA considers in particular that operators of recognised funds, particularly those that are UCITS recognised under the OFR, should not be included in the same category as unauthorised persons. They are operating under a framework that has been recognised by HMT as equivalent, and in its equivalence decision HMT decided not to impose any additional requirements on operators of EEA UCITS. DISC 4.4.1 R (1) – (4) are already addressed by equivalent requirements under UCITS, and DISC 4.4.1 R (5) is required under sections 271I and 271J of the FSMA, as noted in COLL 9.5.9 G. Although in practice we do not anticipate operators of EEA UCITS having any difficulties in demonstrating that they meet with these requirements, it would be preferable to carve them out of these to avoid any uncertainties around differences in the precise regulations applied.

For other firms that are authorised or supervised in other jurisdictions, a more proportionate course of action would be to recognise the standards of these firms as equivalent. Trying to export UK standards and principles (especially the very UK specific Consumer Duty) imposes additional barriers to entry and deters them from participating in the UK financial centre, detracting from growth and global competitiveness.

COSTS AND CHARGES

Question 21: Do you agree with the costs and charges we are proposing to require the disclosure of? If not, please explain why and what alternative approaches you would suggest.

We strongly disagree with the proposal to disclose a summary costs illustration that combines one-off, ongoing, and transaction costs in a single figure. These categories of cost are fundamentally different in their nature and combining them in the way proposed obscures their significance and is contrary to the objective of facilitating properly informed decisions. The summary costs illustration must be removed entirely to prevent potential harm.

We agree with the categories of costs and charges identified but do not agree that they should be disclosed with equal significance. One-off and ongoing charges are both essential to enable consumers to understand what they are paying. They are the fees charged by the parties managing and operating the product and they can be controlled or negotiated by the manager. We agree with the separate disclosure of one-off and ongoing charges in the way proposed.

Transaction costs, in contrast, are a necessary and unavoidable part of delivering the investment strategy and represent a performance hurdle that must be considered by the investment manager. We comment further in our answer to question 22 but we do not agree with the disclosure of transaction costs in the way proposed. The nature and significance of transaction costs should be explained as part of the investment strategy, not quantified as part of the cost structure of the product.

We agree with the proposed approach to disclosing information about performance fees and carried interests using narratives and an example but not with the inclusion of this information in the core information disclosures.

Core information disclosures are intended to be provided in electronic data feeds which are not well suited to carrying freeform narrative information. Requirements for narrative information should be confined to the specification of the Product Summary document and not included in the core information disclosures.

We commissioned The Wisdom Council to research investors' understanding of costs and charges. We await their full report, but the exercise demonstrates that the OCF is a preferred metric for making fund decisions, transaction costs are poorly understood without significant wider contextual information and that investors do not understand total cost metrics or the relationship between ongoing charges and transaction costs. We

strongly feel that the FCA should have carried out – and published – a similar exercise before releasing the CP, given the significant known complexities in this area.

Question 22: Do you agree with our approach to disclosing transaction costs? If not, please explain why.

We do not agree with the approach to disclosing transaction costs. Disclosing a transaction cost figure as part of a product's cost structure in the same way as ongoing charges misrepresents the effectiveness of the investment process, misaligns incentives for investment managers by encouraging not trading when trading may be in the investors' best interests, and misleads investors by comingling the fees charged by the manager and other parties with the costs of trading in order to generate returns. The nature and significance of transaction costs should be explained as part of the investment strategy, not quantified as part of the cost structure of the product.

The core tenet of an investment product is a managed exposure to an appropriate risk and reward profile in return for a price that is reasonable. The exposure to the risk and reward profile is managed through a partnership of research analysts, portfolio managers, and traders each of which play a key part in the investment process. Together these parties analyse, evaluate, select, and implement opportunities to deploy investors' capital with the collective aim of generating investment returns. Transaction costs arise at the implementation stage of the process and represent a hurdle to be considered as part of each decision to trade.

There is a fundamental difference between the regular fees and expenses charged to an investment product for its management, operation, and essential services, and the transaction costs arising as an integral part of the investment process. Sophisticated investors may understand the relationship between transaction cost analysis and investment returns and have sufficient access to detailed trade analytics to interrogate and interpret the numbers. Retail investors typically do not. Therefore, it is incumbent on the industry, and the regulator, to ensure the information presented to retail investors is likely to be understood and interpreted appropriately.

When the evidence[3] shows investors are likely to choose the cheaper option, investors should be presented only with information where the cheaper option is a better choice. It is impossible to know whether an investment strategy with higher transaction costs will be associated with higher or lower investment returns than a strategy with lower transaction costs. Even with a full understanding of transaction costs and their significance, there is nothing useful an investor can learn from the quantum of transaction costs that would equip them to make a better decision about a product.

We remain committed to the full transparency of costs and charges, including the disclosure of transaction costs in the right context. Transaction costs are disclosed in the audited accounts of authorised funds and on firms' websites. They are the subject of scrutiny as part of firms' best execution procedures. But they do not belong in pre-sale disclosures about a product's cost structure because they do not provide decision-useful information.

Question 23: Do you agree with adopting the PRIIPs methodology for calculating transaction costs? If not, please explain why and what alternative methodologies you would suggest.

We do not agree with quantifying transaction costs as part of pre-sale disclosures (see our answer to question 22) so it should not be necessary to define a calculation methodology within the CCI regime. Nevertheless, we continue to support transparency of transaction costs which should be explained as part of the investment strategy with signposting to where more information can be found. We propose to retain and

[3] 'Now you see it: drawing attention to charges in the asset management industry', FCA Occasional Paper 32 (2018)

update our member guidance "Disclosure of fund charges and costs" providing explanations of costs and recommending appropriate disclosures about transaction costs.

We do not support the use of the PRIIPs methodology for calculating transaction costs. This methodology is complex and can give counter-intuitive results that are difficult for investors to understand. This has led to a breakdown in the credibility of the numbers produced and a lack of trust in the overall PRIIPs cost disclosure framework. Our position draws on detailed data and evidence prepared by one of our members, a global asset management firm, and presented as part of our response in the "Appendix: Portfolio Transaction Cost Analysis". It demonstrates the nuances that arise in analysing the movement of share prices during the execution window and that these movements are the result of the trading strategy employed and other external market factors, and not random movements that net to zero over the long term. These nuances are well understood as limitations by financial professionals involved in transaction cost analysis but are ignored when slippage is presented as a cost.

Question 24: Do you agree with our approach to pulling through costs? If not, please explain why.

We do not agree with the approach to pulling through costs which replicates the flawed PRIIPs position by including the costs of all underlying investment products, including listed closed-ended investment funds (LCEFs) such as investment trusts and any other types of CCI (derivatives, contracts for differences, certain debt securities) held in the portfolio. PRIIPs failed to meet investors' information needs by prioritising absolute transparency of costs and charges over the provision of decision-useful information and in doing so circumvented difficult decisions about the perimeter of a meaningful pull through requirement. The CCI regime provides an opportunity redress the balance.

The FCA's current proposal is framed as an anti-abuse measure necessary to eliminate incentives to hide costs in lower-level vehicles and reverses the expectations set out in the FCA's November 2023 forbearance statement. This statement set out an interim measure pending more substantive change that would be possible under the CCI regime to address the inappropriate pull through of the costs of certain underlying investment products by other products. It is also contrary to the effect of the recent temporary intervention by government (SI 2024/1204) which excluded LCEFs from the aggregation requirement in MiFID costs and charges disclosures. We do not agree with a rationale based on anticipated abuse, which we would regard as a governance and/or supervisory issue that should be addressed through those channels as opposed to a rule which could further complicate disclosure.

The consultation has triggered a wider debate amongst our members about whether pull through provides decision-useful information to investors. There is widespread agreement that LCEF costs and the costs of other types of CCI should not be pulled through and a firm rejection of differential treatment of indexing and active strategies. In the latter respect, we wish to clarify that our response to the FCA's discussion paper highlighted different indexing strategies to illustrate the wider point that LCEF costs should not be pulled through and not to advocate a differential approach for indexing strategies.

Feedback from our members falls into one of two camps. Some say that there should be no pull through because the costs in underlying vehicles are a performance hurdle to be considered by the investing vehicle's manager when selecting the investment. Investors are only affected by direct charges and the investment return. Others say that there should be pull through of underlying fund costs because there are two levels of charging that need to be reflected in what investors pay. This reflects that allocations to other funds represent a delegation of investment management rather than a stock selection. This difference of opinion highlights the need for more in-depth work to be carried out to define the perimeter of any pull through requirement before any final rules are made.

Question 25: Do you agree with our product specific cost disclosure requirements? If not, please explain why and if we should extend any of these more broadly? Are there any other product specific clarifications we should consider?

We agree with the exclusion of costs incurred in the maintenance and commercial operation of real assets. We also agree with the exclusion of debt servicing and gearing costs and with the disclosure of gearing as part of the investment strategy rather than a cost.

We consider both exclusions to be appropriate because of the nature of the activities to which those costs relate and not the type of CCI that is engaging in those activities – they are activity specific rather product specific. Therefore, we recommend that the real asset and gearing exclusions should be extended to all types of CCI and not restricted only to closed-ended investment funds.

Question 26: Do you agree with our proposals for the presentation of costs and charges? If not, please explain why and what alternative approaches would you suggest.

We agree with the presentation of a single, aggregated ongoing charges percentage because it is the essential expression of the price paid by the investor for the product. We consider this figure to be appropriately simplified because it includes all the costs and charges that the manufacturer can control or negotiate. We support the option to provide a more detailed breakdown of the components of the headline ongoing charges figure.

We agree with the separate presentation of any one-off entry or exit charges because it should be clear that these arise at specific points in the investment journey.

We do not have a strong view on the presentation of costs and charges as cash amounts but would note that such a presentation is only relevant in client facing disclosures. For the specification of core information disclosures, costs and charges always need to be expressed as a percentage (or, more accurately, as a decimal representing the rate per monetary unit). In this context cash amounts are of no use because they need to be converted to a percentage or rate before being applied to any relevant investment amount.

We agree with the proposal to communicate any performance fees or carried interests using narratives and an example.

We do not agree with presenting transaction costs in the same way as one-off and ongoing charges. Doing so implies they are broadly equivalent costs and encourages them to be added to ongoing charges. As set out in our answer to question 22, the nature and significance of transaction costs should be explained as part of the investment strategy. This approach is broadly consistent with the disclosures about the use of gearing.

We do not agree with presenting a summary costs illustration that combines one-off, ongoing, and transaction costs in a single figure. These categories of cost are fundamentally different in their nature and combining them in the way proposed obscures their significance and is contrary to the objective of facilitating properly informed decisions. The summary costs illustration must be removed entirely to prevent potential harm.

Question 27: Do you agree with our proposed changes to MiFID costs and charges? If not, please explain why. Are there any broader comments you would like to make on cost disclosure requirements under MiFID II?

The proposed changes refer only to removing references to the UCITS and PRIIPs K(I)IDs and the requirements to disclose product costs not contained in the K(I)IDs. These are necessary consequential changes, but do not amount to the holistic reform of cost disclosure envisaged by Government in its UK Retail Disclosure Framework Policy Note (November 2023). Our ability to comment fully on a number of aspects of

this consultation has been compromised by not having full sight of proposals to amend MiFID costs and charges disclosure requirements.

There are two key aspects that need to be taken into consideration. Firstly, as set out in our answer to question 21, we want to see the summary costs illustration being removed. We agree that MiFID should require aggregation of distribution and advice charges with the charges for the product, but it is essential that only the ongoing charges of the product are subject to this aggregation. It should not include transaction costs for the reasons set out in our answer to question 22. In line with our position on the summary costs illustration for CCIs, the MiFID cost illustration set out in Article 50(10) of the MiFID Org Regulation should be removed.

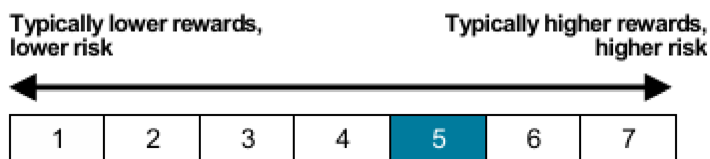
Secondly, the scope of products subject to MiFID aggregation should be aligned with the pull through requirement. Our answer to question 24 highlights the need for further work on setting the perimeter of the pull through requirement and this work needs to address the scope of the MiFID aggregation at the same time.

At the technical level it is essential to address the MiFID requirements set out in COBS 6.1ZA.11 and 12 in addition to the stated Articles of the MiFID Org Regulation.

RISK AND REWARD

Question 28: Do you agree that we should maintain a standardised horizontal risk score for CCIs? If not, please explain why.

We broadly agree, subject to a more balanced presentation of how risk and reward are communicated, which should include a greater acknowledgement of the potential for 'reward' as the corollary of 'risk' in a standardised indicator. There is good evidence to support this type of presentation.[4] The presentation should be enhanced by adding an indication that the scale also shows how the potential rewards increase from left to right in the same way as appears for the UCITS KIID synthetic risk and reward indicator (see below).



Question 29: Do you agree with our proposals for narrative risk and reward requirements? If not, please explain why.

Narrative disclosures play a crucial role in providing context and additional information to customers, yet the regulatory discussion around risk often emphasises downside over upside.

Many consumers avoid investing due to perceived risk, yet they routinely take financial risks elsewhere, such as opening credit cards (which for some will lead to risking problem debt) or low-interest savings accounts (where their money is at risk from inflation). Growth and prosperity require informed risk-taking—whether in business, infrastructure, or long-term financial planning. While understanding risk is crucial, avoiding all risk can be more detrimental than embracing well-calculated ones. The real danger often lies in inaction.

[4] 'Helping Consumers Understand Investment Risk: Experimental research into the benefits of standardising risk disclosure', Report from ABI Research Paper No 25 (2010)

The way investment risk is presented exacerbates fear, particularly through regulatory disclosures that focus on warnings rather than education. To foster more informed decision-making, we propose the following reforms:

Firstly, risk disclosures should inform and empower consumers rather than merely warn them. This aligns with Consumer Duty obligations, ensuring that risk warnings are balanced and suitable for the target audience. By clearly presenting both risks and potential rewards, disclosures can enhance understanding and encourage confident investment decisions.

Second, risk warnings should also be structured to avoid unintentionally discouraging specific groups. IA research from March 2025 reveals that women only make up 38% of investors in the UK.[5] Findings from a University of Nottingham study indicate that traditional warnings like 'Capital at Risk' deter women more than men.[6] IA members with investment platforms have observed that reframing warnings, such as stating, "Investing can outperform cash over the long term, but investments fluctuate, and you may lose money", increases engagement, particularly among women. Providing information on investment horizons further enhances understanding of the risk-reward balance.

Third, all financial products, including cash products and cryptocurrencies, should be subject to comparable risk warnings. Many consumers are unaware of the risks associated with holding cash long-term, particularly the erosion of value due to inflation. Just as investors are warned about market fluctuations, they should also be informed that cash holdings, while seemingly safe, can lose purchasing power over time.

These changes should be part of a broader cultural shift away from 'safetyism,' where an excessive aversion to risk prevents beneficial investment participation. We recommend that the FCA push firms toward a more balanced and educational approach to risk disclosures, encouraging innovation in how risks are communicated. This approach should clearly outline both potential downsides and long-term rewards, thereby enabling investors of all demographics to understand that well-calculated risks are essential for growth. A well formulated policy and approach from the FCA will support the Government's growth agenda and increase retail participation in capital markets.

Additionally, the FCA should ensure that risk warnings are applied consistently across all financial products, so that investors receive comparable and informative risk assessments regardless of the product type.

We welcome the recognition of the need to explain the relationship between risk and performance as set out in the draft rule in DISC 5.6.1R(1) but the second part of this rule needs redrafting. The manager creates exposure to risk by investing in accordance with the investment strategy and manages that exposure in response to external factors. Performance is the consequence of the exposure to risk, so the draft rule needs to be amended to require an explanation of how the risk and reward profile of a CCI impacts performance.

Question 30: Do you agree that the starting basis for this risk score should be the standard deviation of volatility of the product's historical performance or proxy over the past 5 years? If not, please explain why.

Yes, we agree with the use of the standard deviation of volatility for funds and IBIPs and the evidence (Clare, 2010)[7] supports this. However, this evidence also shows that a 10-year sample period is more stable than 5-years and recommended the use of the longer period. Further evidence also demonstrates that the 10-year calculation gives a better indication of the subsequent outturn than the 5-year calculation.[8]

We commissioned Andrew Clare to rerun the volatility calculations using an updated sample period using weekly pricing data from January 2000 to February 2025. The results were analysed according to the

[5] IA/Opinium ISA Barometer survey of 1000 investors (to be published in March 2025)

[6] 'How Do Risk Warnings Impact Investment Choice? Summary of Findings' Report prepared for TISA (2024)

[7] 'Developing a Risk Rating Methodology', Joint ABI and IMA Research Paper (2010)

[8] Note on CESR's recommendations for the calculation of a synthetic risk reward indicator, Research Brief by ABI and IMA (2010)

proposed annualised volatility intervals for the 1 to 10 risk scale. The preliminary results showed that the 1 to 10 scale produces more risk category instability than the UCITS 1 to 7 scale. They also show that a 10-year sample period produces more stable results than 5 years. Initial indications are that a smoothing mechanism is helpful in reducing instability and we are exploring this further. Our expectation is that the best results will be achieved using a 10-year sample period and we see no reason to truncate this to 5-years given the requirement for 10 years of past performance to be provided.

Question 31: Do you agree that we should expand the risk metric from 1-7 to 1-10 to differentiate a larger range of products? If not, please explain why.

As set out in our answer to question 30, we have commissioned research to test the stability of the 1 to 10 scale and the results show it to be less stable than the 1 to 7 scale currently used by UCITS, but this can be more than offset if the sample period is extended from 5 to 10 years.

Question 32: Do you agree that firms should consider amending the risk class where they deem it does not accurately reflect the risk of product specifics? If not, please explain why.

We do not agree with amending the initial risk score. The metric is a measure of volatility designed as an indicator of investment risk. As such it would be misleading to overlay other types of risk where, for example, an investor could choose a product with a higher end risk/reward profile unaware that it is in fact a lower end profile with an overlay of other risks, such as lower liquidity or the complex nature of the product. We recommend that the risk score should be used without adjustment where it accurately reflects the risk and reward profile of the product and prohibited where it does not. We note that historically the FCA did not permit the use of the volatility-based risk and reward indicator scale by property funds producing NURS-KII document.

Question 33: Do you agree with the proposals for products within the high-risk category? If not, please explain why.

A risk score based on volatility is a measure of investment risk. As such it indicates to investors the level of risk and therefore the potential rewards that it is reasonable to expect from a product. Therefore, we do not agree with overlaying other considerations such as low liquidity of a product or complex or opaque features on this risk score. These need to be separately disclosed to ensure that investors do not think they are selecting a high risk/potential return product when in fact they are inadvertently selecting, for example, a complex product where the complexity reduces risk and potential returns, or a lower risk/potential return product with low liquidity (such as a property fund or Long-Term Asset Fund). The high-risk category needs further consideration to deal with product types or characteristics that are very different from one another and may indeed not be 'high risk' in objective analysis.

There is also another issue that arises in the case of products that use leverage. All things being equal, we would anticipate that leveraged products would already calculate to a higher volatility under the proposed standard deviation methodology. It is not clear why an override would be needed in such an eventuality.

We note that historically the FCA did not permit the use of the volatility-based risk and reward indicator by property funds producing NURS-KII document.

Question 34: Do you agree with the proposals for how to apply the risk score to different types of structured products? If not, please explain why.

We note that the volatility calculation was introduced as part of the specification of the UCITS KIID and the CCI regime is now proposing to extend it to a much wider array of products. As part of the UCITS KIID development, we note that an alternative simulation was required for structured funds. Moreover, the PRIIPs approach was developed further to accommodate structured products. Therefore, we question why no such alternatives have been proposed in the new regime.

PAST PERFORMANCE

Question 35: Do you agree with our proposals to require showing past performance? If not, please explain why.

We agree that it is valuable to show past performance. The original testing for the UCITS KIID reinforced a key point in this context. While there is certainly a chance that it may be used by some investors to judge likely future performance, it is a key metric that investors generally expect to see and excluding it would likely diminish engagement with fund documentation. Subsequent lessons from the very difficult process of building performance scenarios for the PRIIPs KID reinforced the need to avoid over-engineering and return to providing past performance. More recent IA research with the Wisdom Council confirmed the importance that investors attach to past performance, which was ranked second (after risk and just above fees) as a factor to look at when selecting a fund.

As with other areas of the consultation, we are concerned we are being asked to respond without full sight of the whole picture. The proposed CCI rules for past performance and the parallel requirements in COBS 4.5A.10 and COBS 4.6.2R should complement each other. For example, the CCI proposals allow performance to be shown for periods of just 3 months whereas the COBS rules require complete 12-month periods.

Question 36: Do you agree with our proposed requirements for a line graph for products that have past performance? If not, please explain why.

We do not have strong views on the type of graph used. Line graphs showing cumulative performance are commonplace on distributors' customer facing communications. They are intuitive and are well suited to displaying comparative information, such as a benchmark.

Question 37: Do you agree with our proposal to require up to 10 calendar years of past performance data to be shown where data is available? If not, please explain why.

We agree that 10-years is an appropriate period likely to cover the full market cycle. We note the question refers to a period of 10 calendar years, but the policy narrative and the draft rules refer only to years or 12-month periods. It would be helpful to clarify this expectation to avoid ambiguity.

We would question whether one datapoint per quarter is an appropriate minimum requirement when more frequent, typically daily, prices are readily available and currently in use where past performance is displayed, and the draft rules require at least weekly prices to be used in the calculation of the risk score. Although the policy narrative encourages more frequent pricing data, this is not clear in the draft rules. To illustrate this point, over the 3-month period from February to April 2020, quarterly data shows the leading UK market index losing 19% of its value whereas daily data shows it lost 31% to its lowest point before recovering over half of these losses.

We agree that past performance should be shown net of costs and charges. Clarification is required as to whether this means the costs and charges deducted from the assets of a fund or also includes any one-off costs and charges to be paid directly by the investor.

We do not agree with the proposal to include the pre-merger performance of merged funds. To do so would be both confusing and irrelevant and could, with a series of mergers, result in a graph resembling the tributaries of a river. It should be sufficient to highlight the date of the merger in the same way as any other material change.

We do not agree with converting £10,000 to an equivalent whole number amount in an alternative currency. It should be sufficient to select an appropriate alternative amount such as €10,000 or $10,000 (rather than £10,000 or €11,880 or $12,926). Alternatively, the currency issue could be eliminated entirely by showing performance in percentage terms.

Question 38: Do you agree with our proposed requirements for the inclusion of benchmarks in the line graph? If not, please explain why.

In principle, providing information on fund performance relative to relevant benchmarks is positive. At the same time, line graphs showing multiple benchmarks (e.g. target and comparator) may become overly complex and illegible, especially where the benchmark returns are similar.

We agree with the policy narrative that adding an appropriate cash benchmark to the graph might help consumers understand the risk and reward profile and the benefits of long-term investing. Therefore, we recommend mandating the inclusion of an appropriate cash benchmark over the relevant period on all line graphs.

Where indices are used as benchmarks, the rules should require the specific index variant to be disclosed. The difference between the gross and net variants of a total return index is the impact of non-treaty rate withholding taxes on dividends. Some index providers also maintain customised variants based on the relevant treaty rates between specific countries. The difference can be significant. For example, the annualised performance difference between the gross and standard net total return MSCI World is 0.53%, which could translate to a softening of the performance benchmark of 5.43% (£543 for each £10,000 invested) over 10 years. The table below shows the difference for some other indices:

Indices performance difference between gross and standard net total return

Index	Annualised performance difference between gross and standard net total return index, 3yrs ending Dec-24, in GBP
MSCI Europe ex UK	0.84%
MSCI World	0.53%
S&P 500	0.52%
MSCI Emerging Markets	0.45%
MSCI Japan	0.39%
MSCI Pacific ex Japan	0.09%

OTHER

Question 39: Do you agree with our proposals for required basic information that must be disclosed? If not, please explain why.

As stated elsewhere in our response, our central concern is that the real purpose of the Product Summary in the consumer journey remains ambiguous. As written, the consultation presents it as both a pre-sale decision tool and a post-purchase record, leading to confusion in its design and the allocation of responsibilities. Some of the general product information (e.g. redress/complaints) may be overly detailed and not essential to decision-making pre-sale.

Question 40: Is there any other basic information you think should be communicated to consumers?

An important area that is not subject to any regulated disclosure is the effect of fund domicile, and therefore access to beneficial withholding tax rates, on returns. For UK investors, UK-domiciled funds generally have access to more favourable double tax treaty benefits than funds domiciled in other countries. For a typical global equity fund this benefit is worth around 20 basis point per year – a significant structural drag on performance for overseas funds driven largely by the UK's advantageous tax treaties with the US, and to a lesser degree Japan, as shown in the following table:

Fund domicile taxation implications per region

Withholding Tax (WHT) Capital Gains Tax (CGT)	UK	IE	Standard NTR index	Approx UK vs IE benefit
USA WHT (S&P 500)	15%	30%	30%	0.20 - 0.30%
Japan WHT (MSCI Japan)	10%	15%	15%	0.10 - 0.15%
Dev. World WHT (MSCI World)	*Blend (mainly USA & Japan)*			0.15 - 0.20%
EM WHT (MSCI EM)	*Blend (mainly Taiwan 10% vs 20%)*			< 0.05%
EM CGT (MSCI EM)	India (c.14%)	India (c.14%) Brazil (c.25%)	nil	*varies*

It is clear that the effect of fund domicile is an important consideration for investors that should be disclosed. We encourage the FCA to consider this effect.

Attempts to regulate disclosures about securities lending in both the UCITS and PRIIPs K(I)ID regimes have been interpreted variously and applied inconsistently, rendering them ineffective. Securities lending generates revenue that is shared between the fund and the lending agent. It can be viewed as yield enhancement in the form of the additional revenue stream to the fund, but the regulatory approach is to require disclosure of a cost to the fund in the form of the lending agent's share of the revenue. We encourage the FCA to consider standardising a balanced approach with a brief explanation of securities lending and its effect on returns as part of the investment strategy. This should include a statement about the revenue sharing arrangements identifying the beneficiaries.

Question 41: Do you agree with our Cost Benefit Analysis? If not, please explain why.

Item description **(Costs to manufacturer firms)**	Small firms (591)	Medium firms (150)	Large firms (37)	TOTAL ACROSS MANUFACTURING FIRMS IN SCOPE FOR CCI
Familiarisation and legal costs (Direct)	£930	£4,800	£15,200	**£1.8m**
IT costs (Direct)	£1,900	£66,000	£240,000	**£19.9m**
Change costs (Direct)	£2,200	£114,000	£234,000	**£27.1m**
Total (one-off) per firm	£5,030	£184,800	£489,200	**£48.8m**

*__Taken from CP24/30__

We do not consider the estimated costs (in excess of £48m as highlighted in the table above) to be a realistic reflection of the likely costs incurred, especially for smaller firms with fewer resources. We anticipate that this may be a much more complex and expensive exercise for the industry.

The requirement for Product Summaries to be maintained on a durable medium and online will necessitate ongoing regulatory support, documentation, and governance, thereby incurring costs on a continual basis. Those that endeavour to adopt a more digitalised approach to the Product Summary may also face higher costs, particularly when thinking about systems changes.

The analysis suggests that the FCA is 'unable to estimate the exact proportion of KIDs that is outsourced.' As such, the CBA has not properly considered the process surrounding outsourcing the KID or KIID production and has under-estimated the costs to firms who do outsource. The FCA also states 'we expect the cost for UCITS firms to implement the new CCI regime is likely to be lower in practice compared to the implementation of the PRIIPs requirements.' This appears to be unsubstantiated since the FCA has not conducted any research into whether firms outsource their current KID/KIID production and potentially dissemination to an outsourcer, nor have we had any sight of any research into the potential costs for outsourcers to develop individual templates for each firm that outsources to them.

Further, the analysis does not seem to sufficiently consider the resource and operational impacts to distributors of adopting the CCI rules in their current form. There will be significant compliance and operational costs to a regulatory change of this nature. Further consideration should also be given to the approach, specifically the impact of the staggered implementation and the possibility of distributors operating multiple disclosure regimes across potentially thousands of impacted products.

The cost of divergence between the UK and EU is another concern particularly where firms caught by both PRIIPs and the CCI rules will need to produce two sets of disclosures. This may have an adverse impact on the UK's competitiveness, increasing firms' costs and imposing further barriers to entry for EU and international firms who wish to conduct business in the UK.

As set out earlier in our response, we recommend further engagement with industry to determine whether the change process and the full extent of the costs involved, are truly commensurate to the anticipated benefits of this new regime.

Appendix: Portfolio Transaction Cost Analysis

SUMMARY

Drawing on extensive trading analysis of a global asset management firm, this appendix sets out detailed data and evidence about portfolio transaction cost analysis and the reasons it should not be used as part of mainstream investor disclosure.

The inclusion of slippage in investor disclosures fails to acknowledge the nuances involved, specifically a) the relationship between temporary and permanent market impact; b) the attribution of slippage to its component parts; c) the role of momentum and impact of other investors; d) the impact of outliers on the mean; e) the contribution of trading to investment returns and f) various exceptions and limitations where arrival prices are inappropriate. These nuances are well understood as limitations by financial professionals involved in transaction cost analysis, but that detail is ignored when disclosure condenses slippage into a 'cost', which risks misleading investors.

The appendix demonstrates that the movement of share prices during the window of execution is not random and does not average out to zero in the long term. The presentation of slippage as a cost of mutual fund ownership creates a headwind to investment in mutual funds, particularly funds with active share, high turnover, small cap exposure and momentum styles.

The disclosure mandated by PRIIPs also has second order implications for financial markets, disincentivising turnover, which has a negative feedback loop for liquidity and transaction cost itself.

Slippage should be considered in its true form as 'implementation shortfall' or the 'alpha hurdle' rather than as part of the disclosure of 'costs and charges' to avoid confusion about the cost of investing in mutual funds.

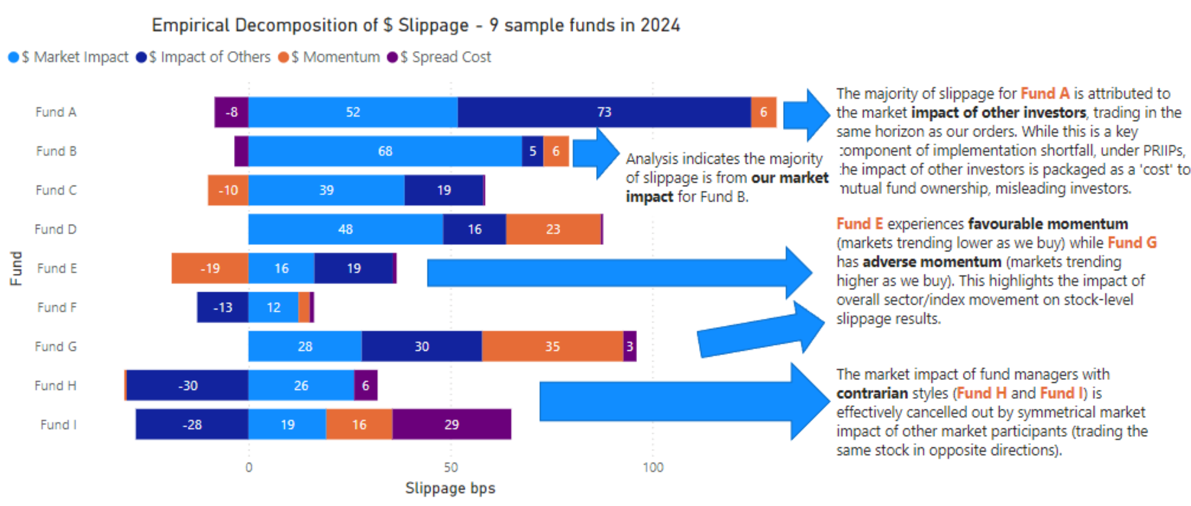
MOMENTUM

Implementation shortfall is an established metric for measuring the difference between target and executed notional for transaction cost analysis. It is well understood that the 'noise' of market movement during the execution horizon affects measurement results. In theory, this 'noise' averages out to zero when applied to a significant number of transactions, leaving us with the market impact of our trading activity. In practice, this is not the case.

Although slippage is a single measurement, there are multiple structural components which can be decomposed via sophisticated post-trade analytics to better understand the reasons for slippage from arrival. The chart below shows the attribution of four key elements to slippage in 2024 for 9 sample funds.

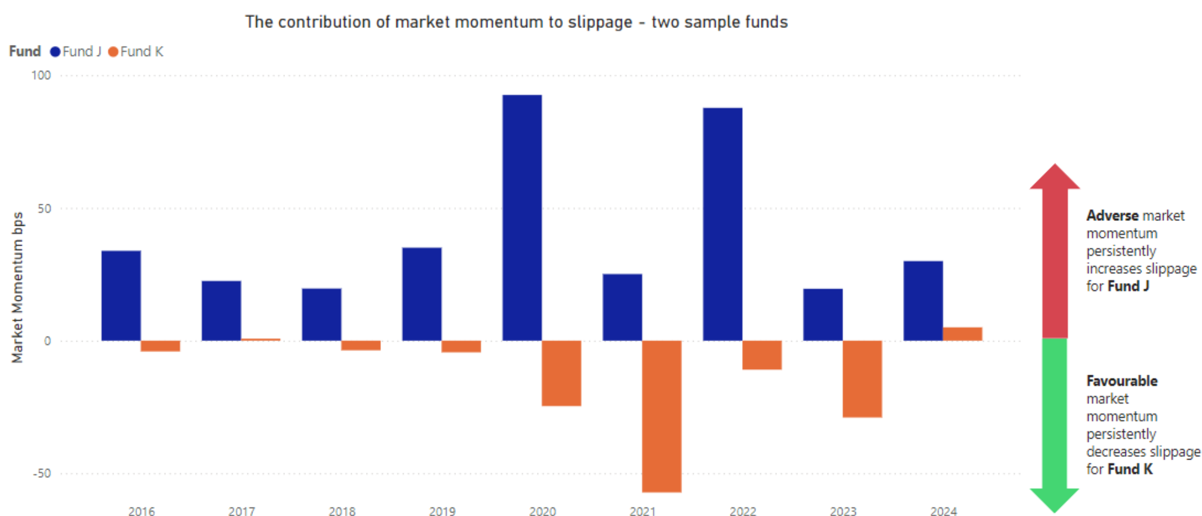
1. Market Impact - our impact on the share price.
2. The impact of other market participants trading the same stock in overlapping intervals.
3. Momentum - movement of sector or market index during execution horizon.
4. Spread Cost - bid/offer spread cost for individual fills.

Whilst our market impact is a key contributor to slippage, the analysis highlights other factors have a meaningful impact on results. Note, the factors driving slippage differ significantly by fund.



Fund A persistently experiences higher slippage with the majority driven by the impact of other investors active in the same stock during our execution horizon. On the other hand, Fund H and Fund I experience a persistent reduction in slippage from this same segment. This is neither randomness nor noise - it's a direct implication of each fund's approach to stock selection and trade timing. Under PRIIPs, the impact of other investors trading activity is packaged as a 'cost' to the investor.

Similarly, the impact of momentum on slippage is not incidental; it's a symptom of portfolio manager's trading style. The graph below shows Fund J has experienced adverse market momentum for each of the last 9 years, increasing slippage, whereas Fund K has experienced favourable market momentum in 7 of the last 9 years, decreasing slippage. These funds are managed by different portfolio managers with opposing trading styles.



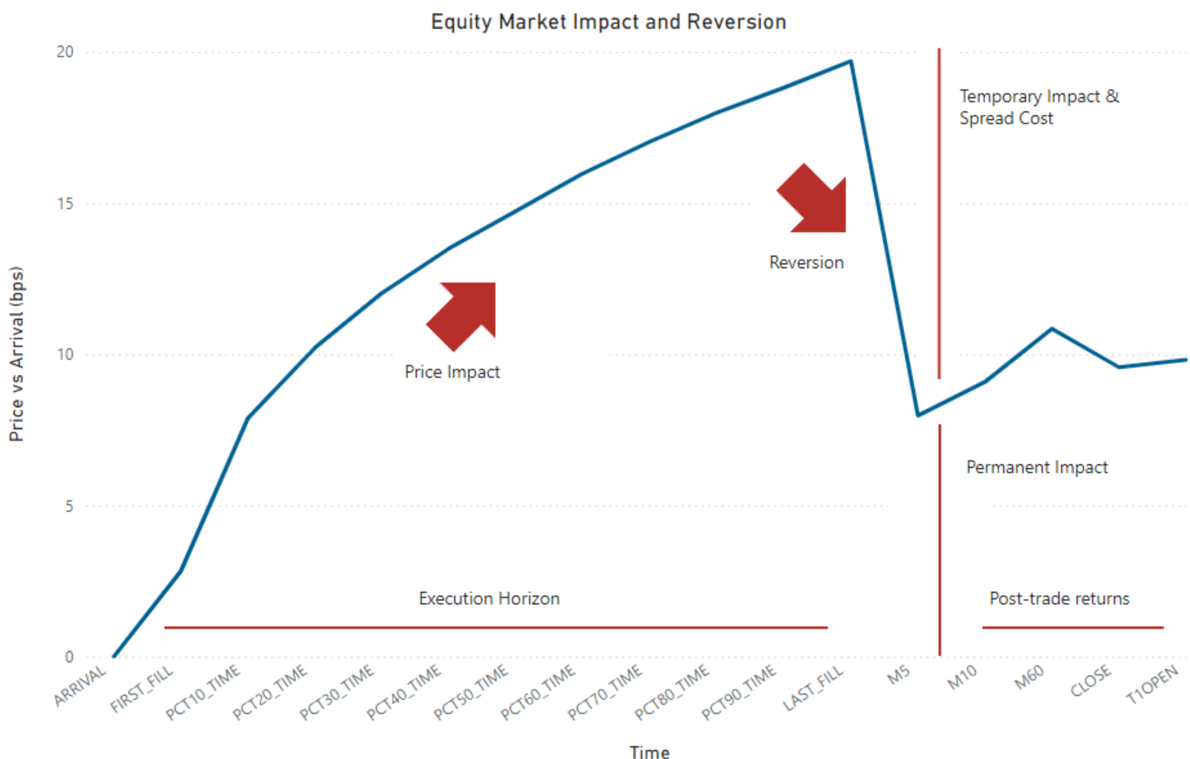
Momentum is still a valid component of implementation shortfall; traders adjust execution strategies to optimise results - but clearly, the assumption that market movements average out to zero is false.

Market movement during our window of execution is not random.

MARKET IMPACT

The disclosure of slippage under PRIIPs regulation fails to acknowledge that market impact is part permanent, part temporary.

This market phenomenon is effectively portrayed in the following schematic, which shows the average price movement during our window of execution for all cash equity orders traded by the firm from 2019 to 2024, covering over $1.7 trillion of notional executed globally. Each order is separated into 10% segments to show the typical price movement from arrival, normalising for order difficulty and duration. Price movement after final fill (+5 minutes, +10 minutes, +60 minutes, to the close and T+1 open) is shown to measure reversion and short-term post-trade returns.



The graph clearly shows the separation between permanent and temporary market impact. Under PRIIPs, the entire slippage from arrival is presented to clients as a 'cost' of mutual fund ownership; however, the permanent component of our impact should not be represented as a cost.

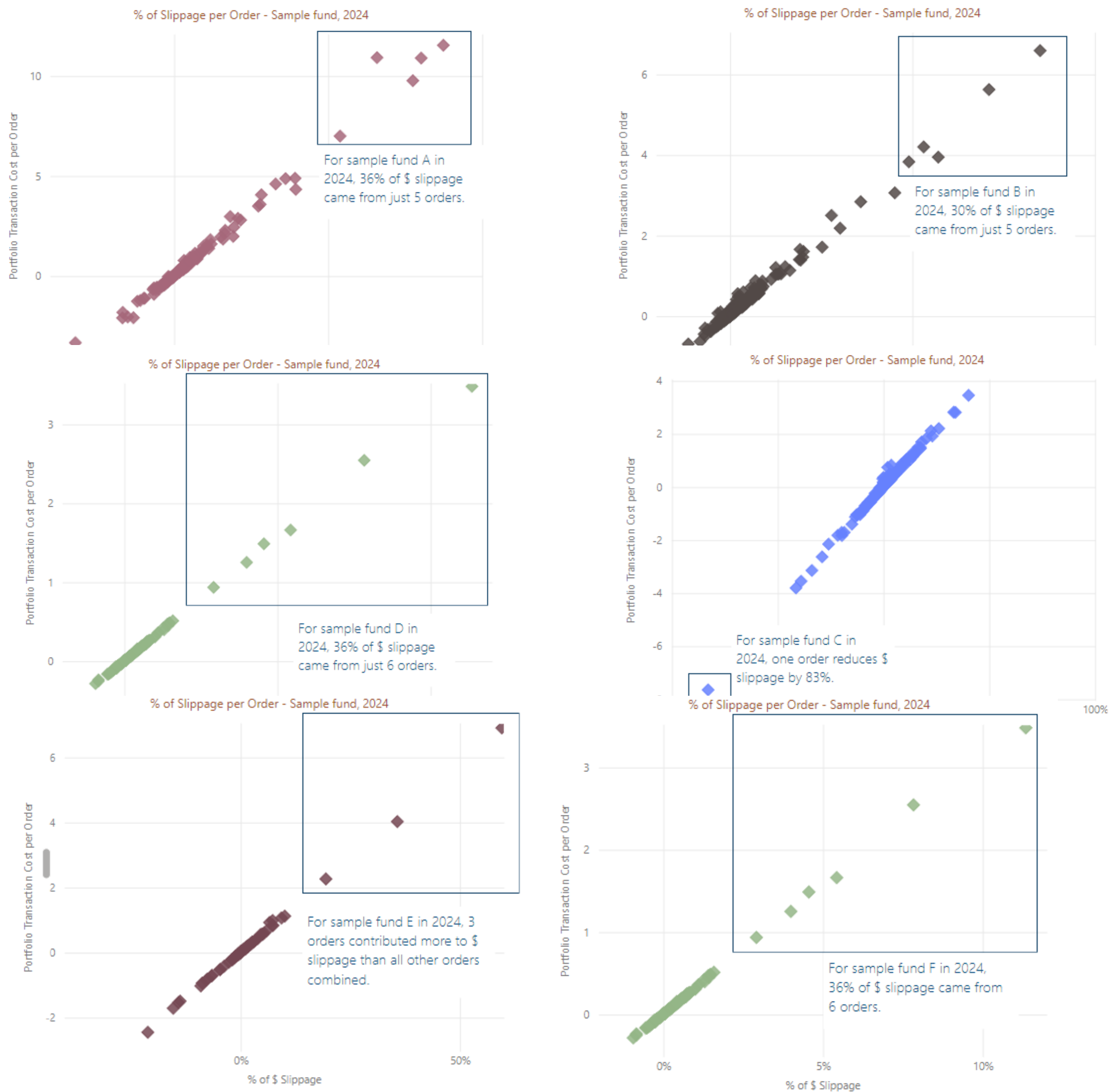
A degree of price impact is part of normal market function - indeed, our trading contributes to price formation as the overall market perception of fair value is continuously updated.

Slippage should be understood in its correct form as 'implementation shortfall', not a cost in the 'costs and charges' disclosures.

OUTLIERS

Outliers form a key part of transaction cost analysis but are not addressed by portfolio transaction cost disclosure. For active funds, it is very common for a handful of transactions to account for an outsized share of $ slippage. In the examples below (6 mutual funds' trading in 2024), >30% of $ slippage came from ~5 outlier orders. These are not edge cases or data issues; it's a core element of trading and transaction cost analysis. Trades are often undertaken in reaction to events (earnings, political events, company announcements, central bank activity), which concentrates trading activity when share prices are volatile.

This naturally affects slippage measurement. While it is important for investment firms to analyse outliers as part of best execution, disclosing slippage as a 'cost' risks misleading investors when the mean can be skewed by a few transactions.



After implementation in 2018, regulatory guidance was updated to introduce a 'floor' in portfolio transaction cost in response to confusion about negative costs. The floor pertaining to slippage masks the reality of implementation shortfall analysis perpetuated by outliers which artificially skews 'costs' higher, misleading investors.

SECOND ORDER POLICY IMPLICATIONS

Given investors (and financial advisors in particular) aim to minimise costs, the natural consequence of this transparency is to discourage investment in mutual funds with high portfolio transaction costs, with no respect to the impact of that trading activity on portfolio returns. Some investors screen out mutual funds with high portfolio transaction costs, which creates a headwind to investment and stunts growth in the industry, particularly fundamental research. Giving Portfolio Transaction Costs (PTC) and Ongoing Charges and Fees (OCF) equal prominence as 'Costs and Charges' suggests the two values are of equal consequence,

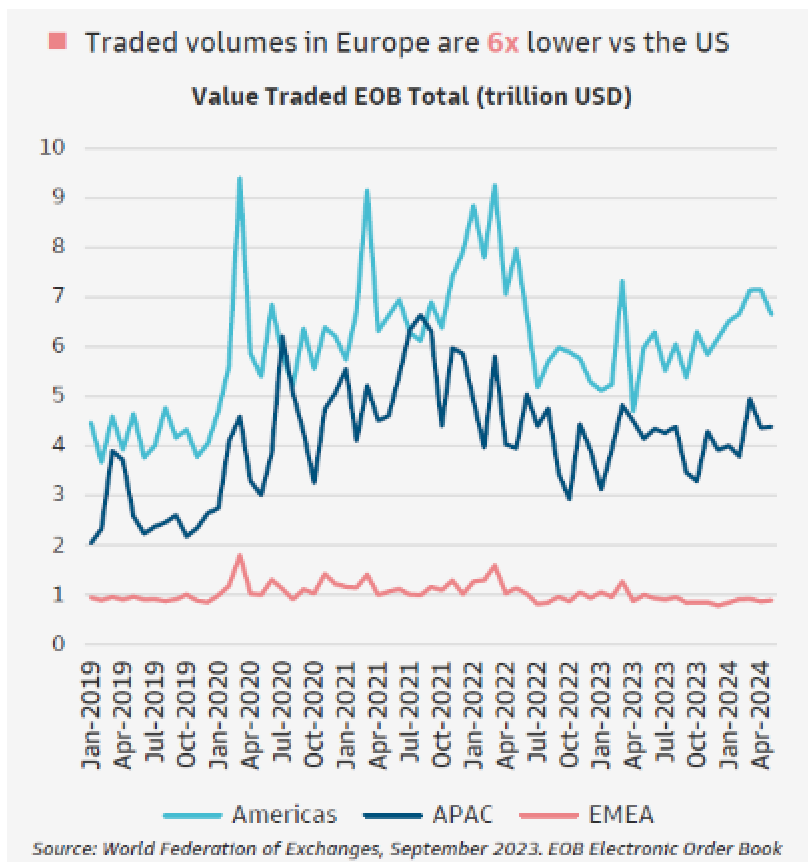
misleading investors who may lack understanding of the nuance involved in implementation shortfall analysis.

Current disclosures therefore further encourage a shift in client capital allocation from active to passive, from small cap to large cap, from high turnover to low turnover, from high active share to low active share. It is important to consider the second order implications of this policy on financial markets.

Some may argue disclosure provides additional incentives for asset managers to optimise liquidity, transaction cost, anti-dilution and best execution processes; we argue that incentive has been ever-present, given trading results are already a key variable in fund performance, which is paramount for the success of a mutual fund. For mutual funds that attract fewer inflows on account of high portfolio transaction cost, a natural response is to reduce turnover to soften the figures, which may not be conducive to alpha generation and investor returns.

TURNOVER AND LIQUIDITY

In the last 20 years, European equities have seen a lack of growth in trading activity relative to Asia Pacific and the Americas. While there are many factors driving this trend (sector skew, market capitalisation, IPOs, fragmentation, economic growth, retail participation, regulation and Brexit - to name a few), the labelling of slippage as a cost of mutual fund ownership exacerbates this malaise.



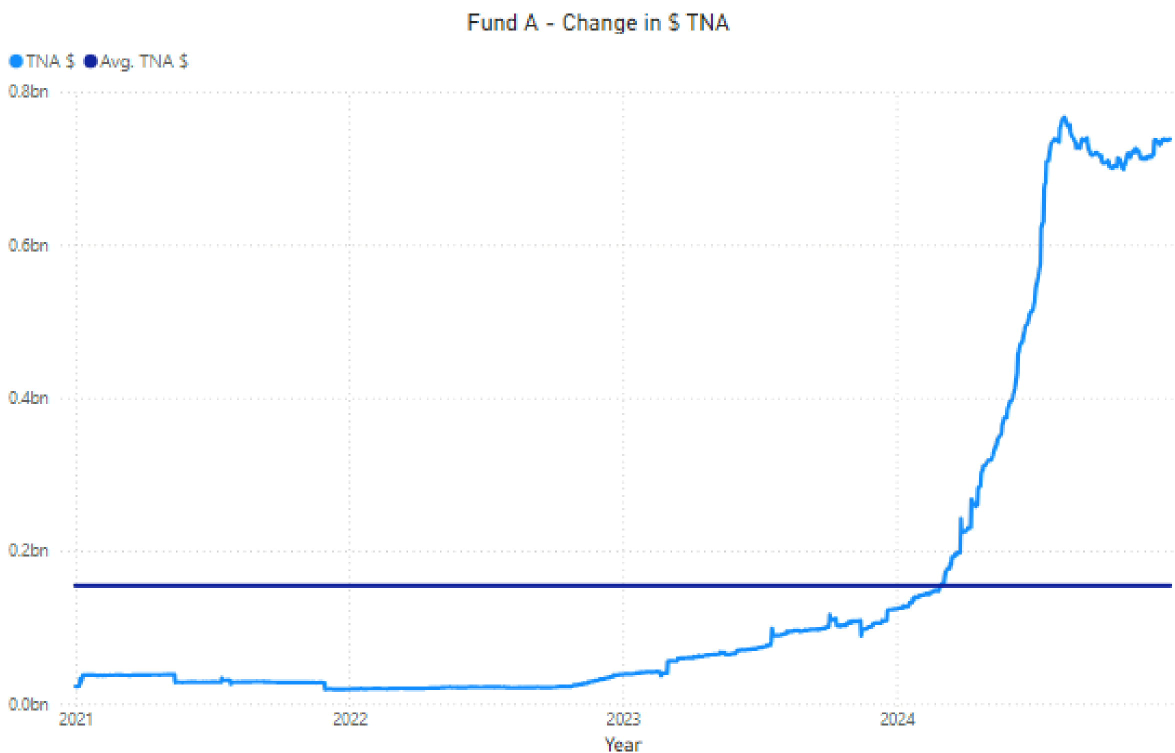
If turnover is decreased to reduce portfolio transaction cost, overall liquidity worsens, which creates a negative feedback loop for transaction cost itself. Like everything, balance is key - a reasonable level of turnover is to be encouraged, something the current disclosure framework disincentivises.

EXCEPTIONS TO THE RULE

While policy making should not be driven by edge-cases, it's important to highlight scenarios where slippage is not appropriate. These examples can distort/pollute overall portfolio transaction cost, particularly given the impact of outliers discussed above.

1. Index CFDs
    a. Comparison of execution price to arrival price is unsuitable for these instruments, unless the index price is fair value adjusted. For a global index, a portion of the underlying markets is always closed - and execution reflects the fair value of those closed markets, while arrival does not.
2. Money Markets
    a. Most money market transactions are cash transfers to banks (time deposits and repos) with overnight value date. Lending cash may be a transaction but applying a fixed 'cost' for reporting purposes is inaccurate and misleading to investors.
3. Fungible liquidity and premiums
    a. Due to foreign ownership restrictions, equities in some markets trade at a premium for foreign investors (e.g. India, Vietnam). This has a direct consequence on slippage calculations as there is a perpetual difference between execution and arrival price.
    b. Many stocks are fungible with liquidity accessible from multiple listings, currencies and time zones.
4. Market Open
    a. For orders transmitted to market outside of trading hours, subsequent market open is the standard benchmark for measuring slippage from arrival. However, the TCA community appreciates the limitations of this benchmark.
    b. The official market open often doesn't reflect fair value when there are large overnight moves in markets.
    c. Aggressive trading in the opening auction may be used to skew arrival price and minimise recorded slippage.
    d. These limitations are considered as part of sophisticated transaction cost analysis, but the nuance is lost when slippage is condensed into a single value disclosed to investors.
5. Extreme Volatility
    a. Amid extreme volatility (e.g. shortly after IPO), arrival price may not be representative of fair value - therefore slippage is to be taken with a pinch of salt.
    b. Volume may not be addressable and translating share price volatility for open orders into a cost of mutual fund ownership is inappropriate.
    c. Where intra-day arrival prices are unavailable, regulatory guidance points to using market open or previous day's close to calculate slippage - but this leads to a degradation in quality of slippage measurement, which accentuates the confusion between 'volatility' and 'cost'.
6. Significant change in fund total net assets (TNA)
    a. When a mutual fund experiences a significant change in TNA (due to large market movements or redemption/subscriptions), the denominator in the portfolio transaction cost formula includes an element of bias.
    b. Consider a $500m fund that shrinks to $100m due to outflows in a short timeframe. Notwithstanding the effects of flow-related transaction cost and recovery by anti-dilution policies, the current calculation in part divides transaction cost for a $500m fund by the capital base of a $100m fund, inflating the reported portfolio transaction cost.

c. The chart below highlights a key example. Fund A rapidly grew from $200m to $750m due to progressive inflows which dissipated thereafter, in part because of client reticence to invest in a mutual fund that appeared 'costly' due to limitations in the portfolio transaction cost methodology.



PORTFOLIO MANAGER STYLE

The measurement of slippage can be circumvented by portfolio managers 'slicing' orders into smaller segments, 'drip feeding' to market or 'reloading' in short succession. This naturally reduces the recorded slippage but is not the optimal strategy for achieving best execution. The practice of drip feeding reduces the propensity for sourcing large-in-scale block liquidity, likely increases information leakage, contributes to momentum via the cumulative impact on share prices and may dissipate short-term alpha opportunities given the increase in 'time risk', or 'opportunity cost'.

THE COST OF NOT TRANSACTING

Consider two mutual funds, both invested in Lehman Brothers equity one week before its descent into bankruptcy in 2008. Both positions represent a 5% weighting in the fund and will take time to liquidate.

Fund A decides to sell its entire position, incurring slippage of 20% in the process but realising 4/5ths of its initial position, which can be reinvested elsewhere. The slippage partly reflects Fund A's impact on the share price but also the impact of other investors and adverse momentum in the US stock market. 20% slippage for a 5% position is worth 1% in portfolio transaction costs.

Fund B decides not to sell, keen to avoid transaction costs and hoping for a turnaround in the stock's fortune. Fund B has zero slippage but recovers zero value from the position, experiencing the full 5% drop in performance.

Assuming everything else is equal, Fund A will have superior performance but higher reported costs and charges. Since 'past performance is not indicative of future returns', investors are likely to favour Fund B as

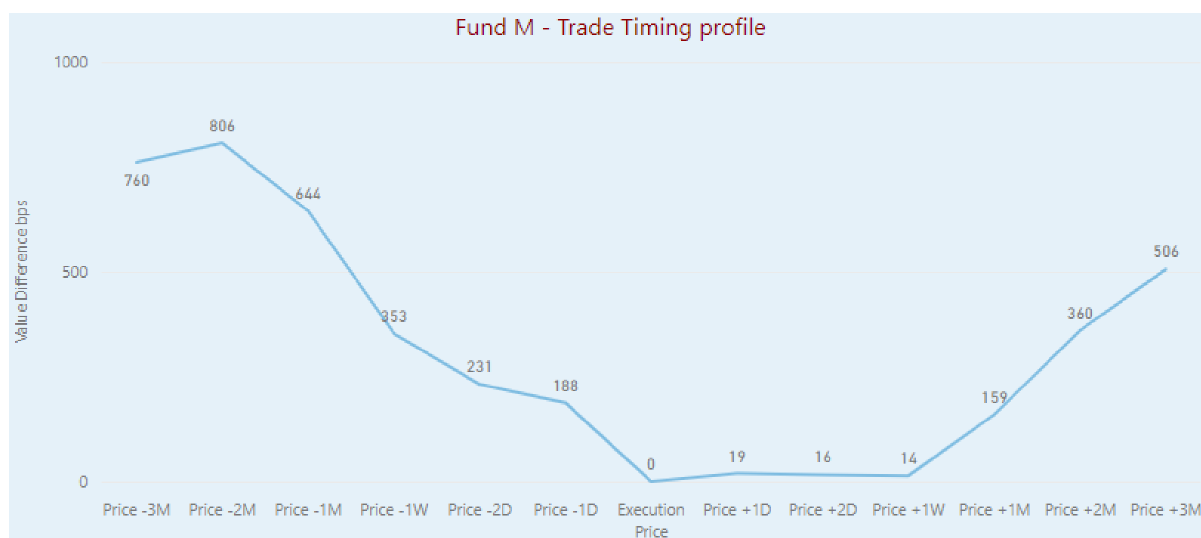
seemingly a lower-cost product - particularly as portfolio transaction cost is portrayed as analogous to annual management fees, which is clearly not the case.

This is an extreme example to demonstrate the point but this relationship between trading and returns is a core component of investing and happens routinely on a smaller scale. The current disclosure regime pays little attention to this relationship.

TRADE TIMING AND CONTRIBUTION OF TRADING TO ALPHA

Active managers must trade to generate alpha. While implementation shortfall is a key metric to analyse, trade timing is of equal importance.

Fund M experienced 67bps slippage from arrival for equity buys in the period 2023-2024. This is presented as a cost of mutual fund ownership under PRIIPs. The graph below provides the necessary context - it shows the average price movement before/after Fund M's transactions - a 6 month wrap around trade date. On average, share prices declined -760bps in the 3 months before trading, rising by 506bps in the 3 months after execution. Trading is clearly adding value to portfolio return, generating alpha for clients under a contrarian, opportunistic style with an effective partnership between research analysts, portfolio managers and traders. 67bps of slippage should not necessarily be viewed as a 'cost' - it should be viewed as the 'alpha hurdle'. In other words, the post-trade return in 3 months might have been 573bps (67 + 506) if it had been possible to secure immediate liquidity at arrival price; therefore ~12% of alpha is lost in the implementation process.



Guided by the current disclosure format, ongoing charges and portfolio transaction costs are aggregated as the 'all-in-cost' of mutual fund ownership. Sophisticated investors understand the relationship between implementation shortfall and alpha generation. Retail clients typically do not.

CONCLUSION

For the reasons discussed in this document, slippage should be considered as 'implementation shortfall' or the 'alpha hurdle' contextualised alongside similar metrics like 'alpha', 'Sharpe ratio' and 'tracking error' rather than as part of 'costs and charges' alongside 'ongoing charges'.

The presentation of trading costs as comparable to ongoing charges serves as a headwind to investment in mutual funds, particularly actively managed funds, which serve a crucial role in financial markets for capital allocation, turnover, price formation and alpha generation for investors. Slippage is a complex, nuanced term that requires sophisticated analysis to understand, interpret and communicate. Condensing slippage into a

single 'cost' metric without accompanying context or colour risks misleading investors. The outcomes of trading results are already included in fund performance itself, which should remain a primary benchmark for mutual fund selection.