TheCityUK

TheCityUK Response to CP24/30 A new product information framework for Consumer Composite Investments (CCIs)

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays a significant role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice, and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business, and manage risk.

Introduction

The Office for National Statistics' 2023 data shows that the proportion of UK shares held by UK-resident individuals fell to 10.8 per cent, down by 1.2 percentage points from 2020. TheCityUK is responding to this consultation through the lens of our work on retail investments, an important component of UK capital markets. To increase retail investment, individuals need personalised guidance and tools to simplify access and help them make informed decisions about the financial products available to them. Therefore, we welcome the FCA's direction to take a more straightforward and flexible approach to Consumer Composite Investments (CCIs) for the 12.6million UK investors[1] who invest in them. The FCA's commitment to move from a prescriptive disclosure regime to a simpler approach is positive – it will help to empower consumers and support firms to develop understandable, engaging and broadly comparable information on these investments.

The framework will set the tone for future retail investor regimes, so we commend the FCA for taking a bold approach to revising the Packaged Retail and Insurance-based Investment Products (PRIPPs) regulation and Undertakings for Collective Investment in Transferable Securities (UCITS) disclosure requirements based on behavioural analysis. We welcome the FCA's commitment to work with the industry to design an outcomes-focused regime fit for the future. We believe that a collaborative approach will help to address some of the challenges we have set out below.

A risk-balanced and internationally competitive regime

We support the FCA combining the risk-reward information to help consumers understand the features of Consumer Composite investments. Allowing consumers to view this information in a holistic manner will enable them to make decisions based on their risk appetite and financial objectives. We also support the proposed changes for the risk score - moving from a 1-7 to a 1-10 risk score will enhance the comparability of products. The flexibility provided to change the risk indicator based on key risks or product features is also a welcome approach.

[1] FCA, Financial Lives survey, 2024.

While the FCA has committed to rebalancing the approach to risk in the proposals, it must be recognised that the supervisory practices that are adopted for key aspects of the framework, such as the product summaries, will become the norm for sector practices. UK retail investment will benefit from close collaboration between government, the FCA and industry to achieve the outcomes that consumers need, and the FCA will have a key role in delivering this. It must take an approach to supervising the regime that reflects the flexibility needed as new products are developed and the UK moves away from a zero-risk culture. Therefore, we recommend that the final framework gives clarity on how the FCA will take a risk-balanced approach to supervisory action as the regime is embedded and across all retail investment reforms.

Given the FCA's secondary objective of facilitating the international competitiveness of the UK economy and its growth, and the fact that UK capital markets are international in nature, the new framework should strike the right balance between UK-based firms and non-UK based firms subject to the Overseas Funds Regime (OFR). We would therefore welcome clarity on the 'high level standards' the FCA will apply to those non-UK based firms for their CCI activities in the UK.

Cost vs. long-term value

Since the financial crisis, policy and regulation have had a major influence in driving the focus on cost. Measures focused on cost have inadvertently shifted focus away from the potential for long-term net returns for investors. We therefore support the FCA giving flexibility to firms to describe what costs mean and their impact on returns. This will allow consumers to retain agency over their investment decisions with the necessary information to align their choices with their financial objectives. The approach will also contribute to a wider move towards a focus on long-term net value rather than short-term cost in UK financial markets.

We support providing retail investors with transparency when it comes to transaction costs but believe that the cost calculation method in the consultation should be reconsidered. The disclosure and calculation of slippage in the ongoing costs and charges section portrays an implementation shortfall as a manufactured cost rather than an effect of normal market volatility or liquidity. A degree of price impact is part of normal market function and trading contributes to price formation as the overall market perception of fair value is continuously updated.

Given investors aim to minimise costs, the natural consequence of this transparency is to discourage investment in mutual funds with high portfolio transaction costs. If the average investor decreases turnover to reduce portfolio transaction cost, overall liquidity worsens, which creates a negative feedback loop for transaction cost itself. Alongside other factors such as IPOs, regulation and Brexit, the labelling of slippage as a cost of mutual fund ownership has contributed to the lack of growth in UK and European equities. Boosting liquidity in UK capital markets will be key to ensuring that they remain competitive internationally. We therefore recommend the FCA adopt an alternative solution for portfolio transaction cost disclosure. Portfolio transaction cost should be limited to explicit costs only and take the form of commission and fees and taxes.

Approach to providing product information

We support the FCA's approach to ensure that product information is provided early in the consumer journey, rather than at the point of sale. The intention to move away from the Key Investor Information Document (KIID) to a product summary will allow more discretion and pivot the central focus from past performance. Past performance is not a complete indicator for future performance,

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but rather should be considered holistically in the round with other factors such as risk, costs and charges etc. Despite the core intention of the consultation to reduce the prescriptiveness of the regime, we note there remain a high number of prescribed elements to the product summary. To ensure that the summary is truly flexible, we recommend a joint industry regulator initiative like that set-up for the Advice and Guidance Boundary Review (AGBR), to ensure that the summary provides the necessary information for consumers.

We broadly support the way responsibility is allocated across the distribution chain for product information. Setting high-level guard-rails for the information that manufacturers must produce will support consumers in comparing products. We also welcome the flexibility the FCA is proposing to how distributors present product information in a way that is engaging and supports retail investor understanding. However, we would welcome clarity on how the FCA will balance responsibilities between product manufacturers and distributors to assess the quality of information being provided to consumers. Giving consumers agency to make decisions for themselves on their investment habits is crucial, so we support setting out guidance that distributors will be allowed to tailor language to a retail investor's specific needs, but firms need clarity on who is ultimately accountable for the information retail investors are receiving.

Interaction with other initiatives

Much of the information the FCA has indicated should be included in product summaries (e.g. performance fees and interest, volatility, past performance, and scope of redress) will also be relevant to any targeted support offered to customers through the Advice/Guidance review. We therefore would welcome confirmation of how the CCI interacts with the range of other measures being implemented by the FCA and the government. We recommend the FCA work with the government to coordinate these measures and align them with a long-term strategy for retail participation driven by the government. The strategy should set the overarching public policy objectives to guide regimes such as these, to widen the societal benefits of investing.

Finally, the scale of the changes proposed means that the 18-month implementation period will be challenging for firms. We therefore recommend that the FCA consider a 2-year implementation timeline for all products in scope. This would allow sufficient time for firms to adapt their business operations and ensure the objectives of the regime are fully realised.

Conclusion

TheCityUK supports the FCA in its ambition to adopt a more straightforward and clearer framework for CCIs. The proposed changes will have a normative effect on retail investment practices. They should therefore be carefully considered to ensure they strike the right balance between providing the necessary information to investors and ensuring a less prescriptive regime for manufacturers and distributors.

Boosting capital in UK capital markets and ensuring a high level of liquidity will be key to ensuring that our markets function as effectively as possible. There remains a concern that the calculation of costs in the framework is having an adverse effect on, amongst other things, liquidity in our markets. Therefore, the FCA should consider other models for calculating cost. There are also a few areas where we would welcome further clarity from the regulator, including how the new framework will impact non-UK based firms, how the FCA will work with industry to ensure the product summary is fit for purpose, and how the framework will interact with other retail investment initiatives such as the AGBR.

The proposals are an important part of efforts to boost UK retail investment to benefit UK savers and revitalise our capital markets, contributing to a more robust and competitive financial environment. To get such an important regime right, we suggest that the FCA convene a joint industry and regulator initiative to ensure the proposals meet their objectives. Alongside other proposals such as targeted support through the AGBR, the regime must be guided by overarching policy objectives set by the government as part of a long-term strategy for retail investment. This will help to set the guardrails for retail investment and clarify how the UK will democratise capital markets for the benefits of individuals across the UK.