

Make retail disclosure work for investment companies

A new product information framework for Consumer Composite Investments

Executive summary

Regulated disclosures required by the Packaged Retail and Insurance-Based Investments Products Regulation (PRIIPs) and Markets in Financial Instruments Directive (MiFID) II harm investment companies (listed closed-ended investment funds) and their investors. **All investment companies should be excluded from regulated disclosures.** Investment companies were exempt from regulated disclosures prior to 2018. The sector (except for Venture Capital Trusts (VCTs)) was again exempted from PRIIPs and MIFID II cost disclosures by legislation last year. The current the intention is to bring the sector back within scope when the Consumer Composite Investments (CCI) regime is implemented.

If all investment companies are not excluded from the legislation, the Financial Conduct Authority (FCA) should ring-fence the sector within the CCI regime and specify that no additional obligations or disclosures are imposed on the sector.

The AIC notes that the wider industry, including members, management groups and investors, are also responding to the FCA consultation. Many of these, including the Joint Industry Consultation Response, have supported the AIC's recommendations, including on exclusion and/or ring fencing. The AIC welcomes and supports these contributions to the debate. They demonstrate that the industry has a strong and united view of need for a fundamentally different approach, ideally excluding the sector from the CCI regime or ring-fencing it within the regime if it remains within the defined scope.

If this approach is not adopted, the FCA must make substantial changes to the CCI proposals to prevent them undermining the sector as a mainstream investment option.

Unjustified extension of regulation

The CCI is intended to replace the PRIIPs rules. PRIIPs requires the preparation of a Key Information Document (KID) and for it to be distributed to investors before they buy an investment. The CCI proposals extend these requirements without justification. Key problems include:

- Extending direct regulation to investment companies without proper consultation or consideration of their existing legal regulatory obligations.
- Imposing an obligation on manufacturers to provide 'core information' when the existing market mechanisms already provide this information which can be used by distributors. Insufficient justification has been given for altering the current approach.

The FCA should replace the PRIIPs rules without any extension of regulatory obligations: It must:

- Identify the Alternative Investment Fund Manager (AIFM) as responsible for CCI compliance for Alternative Investment Funds (AIFs).

- Withdraw its proposals to apply FCA regulation to investment companies as unauthorised firms.
- Withdraw the proposal for preparing regulated core information and allow the market to provide this data.

Flawed disclosure requirements

There are also serious flaws in the proposed CCI disclosures.

- The aggregation of pull-through costs for underlying fund expenses held by actively managed CCIs into the ongoing charge must not be required if holding the underlying collective investment does not result in a financial gain for the active manager.

This proposal hides the amount charged by the active manager. It wrongly conflates the expenses of managing the CCI with another, unrelated expense. It, in effect, double counts the expenses in the underlying collective fund by including them in the CCI expense when they have already been accounted for in the value of the CCI portfolio.

As pull through is not required for passive CCIs, this will make active management uncompetitive and create disincentives to hold collective investments. This will lead to market distortions and worse consumer outcomes.

- Aggregation of costs with different characteristics remains embedded in the CCI rules. These must be disaggregated.
- The proposed summary cost illustration should be withdrawn. It combines the expenses of operating a CCI with those incurred delivering the investment strategy. It is a barrier to consumer understanding and competition.
- The product summary includes a risk indicator on a 1 – 10 scale. This should be withdrawn. Risks should instead be disclosed in a narrative statement.

Timetable and sequencing

The FCA is proposing to introduce the rules for investment companies six months before other CCIs. This will cause disruption and harm to the sector and is impractical. The FCA must:

- Apply any CCI obligations affecting the investment company sector at the same time as other affected investments and firms.

It is problematic that the CCI proposals are being debated in advance of reforms to MiFID II cost disclosures. The MiFID II requirements have been a key problem for regulated disclosures. A full assessment of whether regulated disclosure will serve the consumer interest will only be possible by reviewing the CCI and MiFID II requirements alongside one another.

- The proposals to reform MiFID II cost disclosures should be published as soon as possible. The reform timetable should allow an assessment of the overall impact of

regulated disclosures and to enable recommendations that improve disclosure throughout the distribution process..

Investment companies should be excluded from the CCI regime

The last 18 months have seen a high-profile public debate over investment company disclosures. This has included whether they (that is, listed, closed-ended collective investment companies) should be included in the scope of the CCI rules.

[CP24/30](#) notes (para 2.36) the government's view is that the sector should be in scope. This position has been established in [law](#). The FCA has also said that investment companies should be covered by these disclosures. The AIC regrets this position.

Regulated disclosure under the CCI regime is unnecessary. Other disclosures correctly inform investors about investment companies. They set out the expenses arising from running the company. Accounting rules, which govern disclosures in annual reports and accounts, the UK Listing Rules and the Disclosure Guidance and Transparency Rules (DTRs) are comprehensive and effective.

These disclosures apply to listed trading companies and investment companies alike. HM Treasury and the FCA consider that these disclosures allow for shareholders to make informed investment decisions. There is no justification for taking a different stance for investment companies by imposing the CCI regime.

The non-CCI disclosure framework lets investment companies compete fairly against regulated funds and listed trading companies. This is essential for investment companies as they offer exposure to real assets (such as property and infrastructure) where their closest competitors are listed trading companies. Regulated cost disclosures for investment companies, especially the MiFID II rules which deploy these figures in the distribution chain, distort the market. They create incentives for buyers (particularly institutions, such as wealth managers) to gain exposure to these asset classes through listed trading company shares where there is no requirement to disclose an additional cost. This incentive applies even where the underlying expenses of the listed trading company are much higher than the investment company counterpart. These factors often outweigh any consideration of the superior value, performance and diversification offered by investment company shares.

The AIC continues to believe that investment companies should be excluded from the CCI rules. The sector has only been subject to regulated disclosure since 2018 (when the PRIIPs Regulation was introduced). Before this point, traditional market disclosures were recognised as delivering the information needed by investors. No market changes justify changing this view.

Investment company stakeholders, including wealth managers and other buyers of investment company shares, are concerned that imposing CCI disclosures, and disseminating them through the distribution chain, provides poor information to investors and distorts competition. In turn, this creates a toxic cycle of lower demand and reduced liquidity. This undermines the sector as an attractive investment option.

These factors are having a real impact on the ownership of investment companies. AIC [research](#) (see page 5) has shown how the ownership share of wealth managers has fallen in

recent years. These investors have been particularly affected by cost disclosure, particularly for investment companies holding alternative assets, where the greatest decline in ownership has been experienced.

The AIC and the wider industry are not against disclosure. We are against rules which can mislead investors, particularly in relation to the 'cost' of investing.

This analysis provides a compelling justification to exclude the sector from regulated disclosure. The AIC believes HM Treasury should reconsider its position.

The AIC recognises that the FCA is consulting on the law as it is, not as we would wish it to be. This submission therefore focusses on how the CCI could be applied in a way which resolves the problems caused by the regulated disclosure.

Ring-fence with no disclosure requirements

The AIC **recommends** the FCA ringfences the investment company sector within the CCI regime and specify that no disclosure obligations apply to investment company securities. This position should be replicated in its approach to MiFID II cost disclosure. Adopting this approach for investment companies has precedent in the decision to provide a temporary exemption from disclosures from PRIIPs and MiFID II cost disclosures.

Ring-fencing investment companies in this way would return the sector to the pre-2018 position. It would ensure that investment companies can compete fairly with listed trading company securities. Investor information requirements would incentivise the sector to publish additional information to allow the industry to be compared with funds or other investment products where that would provide additional value to investors. This was the industry approach before 2018. Additional, non-regulated information would doubtless include traditional factsheets or the Statement of Operating Expenses, whose adoption has been proposed by parts of the industry.

The AIC **recommends** that the FCA adopts this approach as a matter of urgency. It should make an early policy statement setting out this intention. This could be accompanied by forbearance, as required, to deliver this outcome as soon as possible.

This would be a bold approach to implementing the CCI regime. It would show that the FCA understands the harm caused to investment companies by regulated disclosures. It will target FCA regulation where it is required. At the same time, it would mean that investors get the information they need. They would receive it in the same way as purchasers of the shares of listed trading companies. This approach would enhance the competitiveness of UK financial services. It would also demonstrate the FCA's commitment to supporting UK economic growth by preserving the position of a sector with a record of investing directly in UK business and infrastructure.

If the FCA does not adopt ring-fencing, then it must not shy away from making radical changes to the CCI proposals in relation to investment companies. If the rules are not amended, they will continue to undermine the sector's competitiveness and attractions as an investment option.

Threats to the future of the investment company sector

Wealth managers and advisers who have been active purchasers of investment company shares are emphatic that regulated disclosures make it commercially unattractive to buy shares for their clients. These disclosures are also causing these investors to sell investment company shares. This is despite wealth managers believing that investment company shares can deliver better returns than other options offering similar exposure. The commercial reality is that listed trading company shares are more investable because they do not show a cost to the end investor when they are held in a client portfolio.

Continuing with regulated disclosures that undermine demand for investment companies harms the investor interest. It will reduce opportunities to buy shares that can deliver better returns. It will reduce competition that helps improve standards across the market. It will cut off a source of capital that can support UK economic growth.

How investment companies deliver superior long-term returns for retail investors and support UK growth is explained in the AIC report [Making people better off](#).

The FCA's approach to regulated disclosure for investment companies is especially disappointing given its approach to other unregulated types of investment. For example, it wants to increase retail investment in traded corporate bonds. These securities (like listed trading company shares) are not being subjected to the CCI disclosure. In [CP25/2**](#) it says that "*The proposed CCI regime carries forward the existing clarification in our rules that debt securities with simpler features are not regarded as PRIIPs. Such debt securities will therefore not be regarded as CCIs either and therefore will not be subject to the new disclosure requirements.*" (Para 2.10.) The exclusion of bonds from PRIIPs and MiFID II product governance requirements was decided because these rules disincentivised issuance and constrain retail investors from investing in corporate securities (para 1.8). The same considerations apply to the investment company sector. Yet these concerns are being ignored by the FCA. The FCA should be consistent in its approach and respond to industry calls and, ideally, ring-fence investment companies and impose no disclosures.

Post-sale disclosure

How costs are disclosed to investors once they have bought an investment company share is one of the greatest problems with the current approach. Post-sale disclosures arise from MiFID II. Two MiFID II provisions illustrate the harm of using CCI disclosures in the distribution chain:

Single figure, aggregated cost disclosure: Aggregation is a barrier to providing decision-useful information when it combines expenses and fees with very different characteristics.

One instance of harmful aggregation is the summing of expenses paid by the company with fees paid directly by consumers. This reduces decision-useful information for shareholders. Another example is combining expenses paid out of CCI assets which have very different purposes. Aggregating the expense of operating an investment company with the expense of delivering the investment strategy. Aggregating the operating expenses, such as the management and depositary fees, to create an ongoing charge is not inherently misleading. Combining these expenses with transaction costs and pull-through costs is. These expenses arise in the delivery of the investment strategy and should be considered separately.

MiFID ‘single figure’ cost disclosures exemplify inappropriate aggregation. It sums the cost of the investment, alongside platform and advice fees. Combining these very different expenses and fees makes it difficult for consumers to understand what they are paying for and if they are achieving value for money. This reduces competition in the public interest.

The government agrees. It has stated that it accepts that “*the single aggregated figure that is being produced under current EU-inherited rules is not an accurate representation of the actual cost of investment in shares in an investment trust [company]*” ([Explanatory Memorandum to The Packaged Retail and Insurance-based Investments Products \(Retail Disclosure\) \(Amendment\) Regulations 2024. No. 1204.](#) para 5.2.)

Cumulative effect of costs: MiFID II requires distributors to disclose the ‘*cumulative effect [of costs] on return of the investment*’. This disclosure sums the costs of an investment over time, based on an assumed growth rate, and presents them to consumers in a way which implies they will be charged to the investor when, in fact, they have already been accounted for in the share price. In some cases, costs (such as performance fees) are included in the total when they have not been charged at all or would not be charged given the growth assumptions used.

This disclosure is fundamentally misleading. The investor should consider the company’s ongoing charges (that is, its operational expenses) and separately consider its performance. The cumulative impact disclosure provides no decision-useful information.

The AIC **recommends** that both these obligations in MiFID II should be abolished.

The FCA’s decision to consult separately on MiFID II is a problem because the CCI rules will determine the content and impact of the MiFID II disclosures. Without a clear picture of how the CCI disclosures will be used, it is impossible to evaluate the proposed retail disclosure framework. The AIC’s recommendations may require adjustment when the FCA’s proposed MiFID II reforms are published.

The role of consumer testing

The FCA is ‘consumer testing’ its proposals. While this evidence may have value, it must be viewed in proper context.

The CCI disclosures will affect professional as well as retail investors. Professional investors have emphasised that current cost disclosures, particularly misleading aggregation, causes significant problems. These real-world concerns must carry as much weight as consumer testing undertaken within artificial conditions.

If active fund managers must pull through investment company costs, this will increase their own costs in comparison with tracker funds. This creates a strong disincentive to hold investment company shares in CCIs with active portfolios. This market distortion is a fundamental concern, but the policy issues arising will not be highlighted by consumer testing.

The AIC is concerned that the FCA’s prior assumptions about cost disclosure, particularly the presumed benefits of aggregating expenses of different types, will inform how it commissions and uses the results of consumer testing.

Consumer bias and understanding about fees and expenses will tend to favour disclosures which provide less useful information. The FCA should seek to create disclosures which better inform consumers, not ones which reinforce views which may be misplaced.

Objectives of the CCI rules

The AIC **recommends** the CCI rules must deliver:

- **Appropriate, decision-useful information:** The CCI regime will only be successful if it helps investors make better decisions. The consultation takes a few steps in this direction. The proposed disclosure of past performance is welcome. In other areas, the proposals fall short. Inappropriate aggregation of costs is a key flaw. Two examples within the CCI proposals are especially harmful:

- **Pull-through costs for actively managed CCIs:** CCIs with actively managed portfolios will have to 'pull through' costs of any funds they hold, even when the same manager does not manage the underlying fund. This is harmful. It obscures what the CCI manufacturer is being paid out of the assets of the CCI. The direct costs of using the CCI itself – critically the cost of the asset manager – is the key disclosure. This is because the operator of the CCI has incentives to minimise the costs of delivering the investment strategy. This includes those expensed within underlying funds managed by a different firm, as well as gearing expenses and transaction costs.

Pulling through underlying fund expenses of investments managed by a different manager incorrectly increases the apparent 'cost' of investment as these expenses are accounted for in the value of the assets. The FCA's proposed approach means expenses are double counted: once in the underlying fund and again the CCI which holds them.

Pulling through expenses in underlying funds for active but not passive CCIs will distort competition in favour of passive management over active management. It obscures a fair comparison between active and passive CCIs. Arguably, the case for excluding pull-through costs from active funds is greater than for passives as the manager is exercising its judgement, on behalf of the end investor. It is not simply following the requirements of a tracking methodology.

Treating active and passive strategies differently has no logic. A passive CCI could track an index of all investment companies listed on the UK stock market. It would not have to pull through their costs. A CCI actively selecting investment companies from the same universe would (even where there is no financial benefit to the manager). This position is nonsensical and actively harmful to active management.

- **Summary costs illustration:** The product summary is to include a 'summary of costs illustration'. This aggregated disclosure combines costs of different types (apples and pears, so to speak). Presenting a single figure obscures decision-critical information – the ongoing charge. It overemphasises the level of costs, encouraging investors to focus on the lowest cost option rather than value for money.

- **Proportionality:** The decision not to impose a template on the manufacturer's product summary is proportionate. It will give manufacturers flexibility to design disclosures that meet investors' need.

Other proposals are disproportionate. Regulating investment companies which are not acting as AIFMs is unnecessary to deliver compliant CCI disclosures. The proposal for regulated core information is also disproportionate and unnecessary. Within the product summary, the Summary Risk Indicator is a burdensome obligation which provides a misleading impression of risk. These problems must be resolved in the final rules.

- **Certainty:** The CCI regime does not provide certainty on who is responsible for CCI compliance. CCIs may have more than one manufacturer. In this case the FCA is proposing they reach an agreement over who prepares what information. This creates uncertainty. It could lead to errors and will increase compliance costs. It will reduce distributor confidence in the disclosures.

For investment companies, the lack of certainty is a big step backwards in comparison with the PRIIPs requirements. The PRIIPs regime identified the AIFM as responsible for the PRIIPs KID. This is clear and unambiguous. Replicating this approach would rely on established systems and controls and implement the new regime effectively. After all, the problem with the PRIIPs regime is not who is accountable for preparing the information. The main regulatory problem is the content of the KID, as it does not deliver decision-useful information.

- **Competition in the public interest:** Investment company shares compete directly with open-ended funds and listed trading company shares. The CCI disclosures will stop investment companies competing effectively with either of these alternatives. This will harm the consumer interest. See our report [Making people better off](#), which shows how the sector can deliver superior outcomes in comparison with open-ended funds. Barriers to investment must be removed in the final disclosure framework.

Consultation questions

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

The AIC does not agree with the FCA's overall approach. The proposals do not clearly identify an entity responsible for CCI compliance. This is a failing in comparison with the current PRIIPs regime. The PRIIPs regime identifies a single entity as being responsible for providing information for each investment company within scope.

Investment companies are AIFs as defined by the Alternative Investment Fund Managers Regulations (AIFMR). All AIFs distributed in the UK have an AIFM. Investment companies' shares made available to retail investors must have a PRIIPs KID. The AIFM is responsible for preparing the KID.

The FCA has not provided any evidence that investment companies' KIDs were not compliant under the previous approach. The AIC **recommends** that the AIFM should be identified as being responsible for preparing the product summary and (if required) the core information for

investment company shares. The AIC **recommends** that no regulatory obligations are directly imposed on investment companies by the CCI regime.

Also, the AIC disagrees that manufacturers should have a regulatory obligation to distribute 'core information'.

- This is a significant increase in the regulatory requirements imposed by the PRIIPs regime, which only requires a KID to be made available. The KID is analogous to the product summary. The CCI proposal for regulated core information creates significant additional obligations. PRIIPs Regulation (and MiFID II) allowed the industry to distribute product information on a voluntary/commercial basis. This has been successful. The FCA has not explained why this approach should not continue in the future.
- The amount of core information to be provided is substantial. Manufacturers will have systems in place to maintain the quality and accuracy of the data. Subjecting this to a regulatory regime will create unnecessary compliance costs. These costs will be borne by investors. A cost benefit analysis for imposing these burdens has not been made.
- The information to be provided is more extensive than that provided on a voluntary basis via industry solutions. For example, it will include data to reproduce line charts. If benchmarks are used, then licencing restrictions may mean that the information cannot be provided.
- The proposal to regulate the provision of core information is onerous and inconsistent with a proportionate regulatory regime.

The AIC **recommends** that the FCA withdraws its proposal for the provision of regulated, core information. The provision of additional information, which might include a breakdown of CCI information, should be a matter for distributors and manufacturers to determine.

As far as the FCA does justify its proposal to regulate the distribution of core information, it says it is to "*help distributors understand the product and assess whether the manufacturer prepared summary will meet potential investors' information needs. Distributors can use this to help produce a more tailored product summary or provide additional information that will help consumer understanding.*" (Para 4.9.)

Allowing a distributor to publish its own product summary, which differs from the material issued by the manufacturer, is highly problematic.

- It creates an expectation that distributors should review the accuracy of product summaries, when previously their only obligation was to provide a KID. There should be no expectation that this is required. There should also be no expectation that the distributor might 'tailor' the product summary or provide additional information. This is not to say that more information would not be provided by the distributor in its in-house format. This could be a factsheet or a digital/audio/video presentation of the characteristics of the CCI. However, this would not be a regulated product summary, which should be the responsibility of the manufacturer.

- Allowing a distributor to second guess the product summary provided by the manufacturer, implies that the FCA is not confident that the product summary will achieve its objectives. Instead of imposing expectations on distributors, the FCA should ensure it correctly sets the requirements for the product summary.
- Allowing a distributor to alter the product summary creates problems of comparison and confidence. An investor considering a CCI offered via different distributors may receive different information. This will cause confusion.
- This approach undermines accountability for the product summary. One entity should be responsible for the product summary. In the case of an investment company this should be the AIFM. The distributor then knows which party is responsible. The regulator will have a clear point of contact if issues arise. Making one party responsible reduces the potential for legal liability for distributors if a product summary provided by a manufacturer is non-compliant or otherwise misleading.

The AIC **recommends** that there should be no provision for a distributor to prepare its own regulated product summary.

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

If the CCI regime provides helpful cost disclosures for overseas funds it may help distributors assess their value. As discussed throughout this response, the current proposals include significant flaws which mean they do not provide helpful disclosures. The rules require significant amendment for them to provide decision-useful information.

Clearly allocating responsibility for CCI compliance will give distributors confidence in the CCI regime. This should help them assess the value of overseas funds. If the overseas fund is an AIF, then it must have an AIFM. The AIC **recommends** that the AIFM should have responsibility for making CCI disclosures imposed on manufacturers. If the AIFM chooses not to provide the CCI mandated product summary, then the CCI will not be distributable to retail investors in the UK.

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

The AIC has no comments on this question.

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

The CCI regime will cover products where the returns received by the investor are “*dependent on the performance of indirect investments*” (meaning underlying or reference assets) (para 3.2). Certain exceptions are specified in the regulations. The AIC **recommends** that the FCA clarify whether the rules apply to securities issued by listed trading companies, including, for example, those with group structures, and the basis for this conclusion.

CP24/30 also says that the proposed regime would apply to retail distribution of all securities issued by closed-ended investment companies. As discussed in the introductory section, the AIC considers that investment companies should be excluded from scope of the CCI rules. If they are not excluded in full, the AIC **recommends** that the sector be ring-fenced, with no CCI obligations imposed. The policy case for this approach is set out in detail in the introductory section.

If the sector is not ring-fenced as proposed by the AIC, the AIC **recommends** the FCA should allow investment companies' securities not to be CCIs where they are not 'meant' for (and not distributed to) retail investors. The AIC **recommends** that an investment company and its AIFM should be able to determine this issue by withholding the product summary ([see question 7](#) for a full discussion of this matter).

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?

As discussed in the introductory section, the AIC considers that investment companies should be excluded from scope of the CCI rules. If they are not excluded in full, the AIC **recommends** that the sector be ring-fenced, with no CCI obligations imposed.

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?

The AIC has no comments on this question.

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.

The CCI regulations will not apply to a readily realisable security not meant for retail investors. The conditions which define whether a CCI is meant for retail distribution should allow the securities of an investment company to be withdrawn from retail investment by the investment company and its AIFM.

DISC 1A.1.6 sets out three conditions that will determine that a security is not meant for retail investors. Marketing materials for the CCI must include clear disclosures that the product is not intended for retail investors. Also, the issuer and distributor must have taken reasonable steps to ensure that the offer and relevant promotional communications are directed only to eligible investors. These conditions are appropriate.

DISC 1A.1.6 also sets a minimum investment requirement of £50,000 for a readily realisable security to fall outside the requirements. A minimum investment requirement is not an appropriate condition to identify whether investment companies are not meant for retail distribution. It should be possible to withdraw investment company securities from retail distribution without imposing a £50,000 minimum investment requirement.

Imposing a £50,000 (or any) minimum investment requirement would restrict the commercial attractions of investment companies' securities to professional investors who might want to

make small investments. For example, they may wish to take advantage of dividend reinvestment schemes. They may want to rebalance their exposure/asset allocation which could involve investments of less than £50,000. Preventing professionals from investment on this basis is disproportionate and inappropriate. It will make investment companies' shares much less attractive without a clear regulatory justification.

Investment companies, and any external manufacturer/AIFM should instead be able to limit distribution of their securities to professional investors by not issuing a product summary. Withholding the product summary should be the deciding factor.

Where a product summary is not available distributors, e.g. execution-only platforms and Independent Financial Advisers (IFAs) would not have the required information to distribute the securities to the retail market. This is an effective way to prevent general retail distribution. It does not raise any regulatory concerns or consumer risks.

DISC 3.1.2 G (3) says that "*If no product summary is available for a consumer composite investment, for example, because neither the manufacturer nor the distributor has yet prepared one, then DISC 2A.3.1R has the effect of prohibiting the distribution of the consumer composite investment to retail investors.*" The FCA therefore, in any event, expects the absence of a product summary to prevent retail distribution.

The AIC **recommends** the CCI rules include an explicit provision to allow an investment company and its AIFM to restrict retail distribution of the securities by withholding the product summary. Where the product summary is withheld other CCI obligations would not apply. The AIC's proposal will deliver proportionate and well targeted rules which maintain the competitiveness of UK markets, support the investment company sector and protect retail investors.

The AIC **recommends** that this should be achieved by amending DISC 1A.1.6 (3) by after "*before the date of issue of the consumer composite investment*" inserting "*or the security is admitted to trading on a UK recognised stock exchange and a CCI compliant product summary is not provided.*"

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

No, the AIC does not agree with the proposed transitional provisions. The timeline for imposing the CCI requirements on investment companies should be the same as for all other products within the regime. See our response to [question 9](#) for further detail.

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.

No. If investment companies (closed-ended investment companies) are to be included in the regime, they should have the same transition arrangements and implementation timeline as other CCIs. This is the obvious way to operate the new regime. It is proportionate and reduces the risks of any compliance problems.

Practical considerations

The transition period must allow all parties time to develop systems to meet the new requirements. There is no reason to conclude that these challenges are less for investment companies and their AIFMs than any other CCI manufacturer.

Even if it is possible for the AIFM to comply with the CCI requirements earlier, there is no reason to believe that distributors will be able to meet the same timetable. It is unreasonable to expect distributors of CCIs to develop systems for one part of the market to a shorter timetable than another. They will want to develop a single, comprehensive system for all CCIs. This will be cost effective, minimise development challenges and reduce compliance risks.

The proposal for a differential timetable is particularly surprising given the issues arising for retail platforms because of the temporary exemption of investment companies from PRIIPs and MiFID cost disclosures. The legal position has changed but platforms have not changed their processes. Investment companies trying to take full advantage of the new position have seen their shares withdrawn from sale by platforms. Platforms have highlighted the difficulty of changing systems for one part of the market in advance of new CCI rules being introduced for all investments. They face development constraints as systems cannot necessarily be developed for individual products. The same issues will arise if the CCI rules are implemented in stages rather than for all CCIs at the same time.

It is not only platforms that will have problems. Data providers use common systems for all CCIs. They will process investment company information alongside other CCIs. It is not reasonable to expect these providers to develop systems for investment companies in advance of other CCIs. Asset managers will want to coordinate the production of product summaries across all the products they manufacture. They will face additional cost and complexity if they must develop product summaries for one type of CCI in advance of others. For all parts of the manufacturing and distribution chain a phased timetable will increase costs and complexity.

The CCI regime will also rely on industry solutions for the distribution of information on CCIs (whether this is regulated core information or provided on a commercial basis). The current vehicle for this is the European MiFID Template (EMT). This is administered by FinDatEx. It has been willing to adapt the EMT for the requirements of the UK market. It may be less willing to introduce investment company specific requirements where this front runs a wider change for all UK CCIs. Creating a two-step approach, raises practical and compliance risks for all parties involved.

A phased approach to the rules will create market access issues for investment companies if distributors are unable or unwilling to develop systems to a faster timetable for the sector. If investment companies' securities cannot be sold into retail markets for any period, this will be very damaging for the sector and investors. We would expect liquidity to reduce and discounts to widen. This could have a material effect on the share price and attract opportunistic activism, which is not in the interests of all shareholders.

The proposal will also create a different treatment for different types of investment companies. VCTs continue to make PRIIPs and MiFID II cost disclosures. They should be subject to the final CCI framework as other CCIs. However, this means that VCTs, which are investment

companies, will be subject to the rules later than the rest of the sector. This creates another anomaly and area of complexity.

Inadequate policy justification

The policy justification for imposing the CCI requirements on investment companies before other CCIs is unconvincing.

The FCA already operates under a disclosure framework where different rules apply to several types of investment. It has accepted the differential disclosure obligations being imposed on Undertakings for Collective Investments in Transferable Securities (UCITS). UCITS were exempted from preparing KIDs since the PRIIPs rules were introduced. UCITS were supposed to adopt the PRIIPs requirements in 2020. This did not happen. Different disclosures continue to be made for PRIIPs and UCITS to this day. The FCA has been content to allow these differences to persist.

If the FCA imposes the CCI regime on investment companies' securities six months before other PRIIPs, then it will not achieve consistency in disclosures. Three different regulated disclosure regimes would still apply at once. UCITS, non-investment company PRIIPs and investment companies would all be providing different disclosures.

HM Treasury's temporary exemption for investment companies from the PRIIPs rules should have no bearing on the timetable. It simply creates another anomaly alongside the many that the FCA has not previously sought to remedy.

The FCA has not identified any consumer detriment arising from the current temporary exemption from PRIIPs and MiFID cost disclosures. Without this there can be no justification to creating additional compliance burdens and risks for the investment company sector and distributors. The FCA's objective should be to ensure a smooth transition to a long-term disclosure regime. The current proposal will not achieve this.

A one step approach to implementation

Imposing the CCI regime on investment companies six months before other CCIs is operationally burdensome, disproportionate, poorly targeted on regulatory risks and creates competition and market access concerns.

The AIC **recommends** that the same timetable for implementing the CCI regime be applied to PRIIPs, UCITS/Non-UCITS Retail Schemes (NURS) and investment companies subject to the PRIIPs exemption. The AIC **recommends** that this should be set at 18 months from the publication of the final rules to allow all parties in the distribution chain to develop the required systems.

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.

The AIC agrees that the 'manufacturer' should prepare the product summary. It agrees that the manufacturer should calculate and provide underlying information about a CCI to the market. However, the provision of this information should not be regulated. The CCI

framework should reflect the PRIIPs approach, where the market determined what information should be provided and how this should be done. Creating new disclosures does not justify regulating core information.

The AIC agrees that there may be more than one firm involved in manufacturing a CCI. The Consumer Duty recognises this reality. However, for investment companies, and other AIFs, responsibility for CCI compliance should not be a matter for negotiation. The AIC **recommends** that the CCI rules specify that the AIFM is responsible for the manufacturers CCI compliance obligations where the CCI is an AIF. This will create a clear line of regulatory responsibility for preparing the product summary. It will ensure that all AIFs have a party responsible for providing the product summary. This will help reduce compliance and legal costs. Clarity will give distributors and investors more confidence in the product summary. This approach will replicate the approach adopted for PRIIPs, which ensured the delivery of compliant KIDs in a proportionate way.

The introduction of the product summary offers an opportunity to streamline disclosures. In particular, the AIC **recommends** that where a firm has obligations to publish consumer facing information under the Sustainability Disclosure Requirements (SDR), they should be able to meet these obligations by including material in the product summary. Where this is the approach, they should not be required to republish the same information in other disclosures.

The AIC **recommends** that provision of a product summary for an AIF provides a justification for ending the requirement to provide pre-sale information under the AIFMD.

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.

The AIC does not agree with the core information requirements proposed. For example, it disagrees with provision of a summary cost illustration. The AIC's views on these issues are set out in our answers to subsequent questions.

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.

Product manufacturers should be able to choose whether their products are sold to the retail market (see our response [to question 7](#)). Allowing the investment company and AIFM to withhold the product summary will let them decide if the securities are sold into the retail market or not.

This approach is proportionate. The disclosure obligations would be triggered only where retail investment is intended. This approach will also disapply the Consumer Duty obligations where they are not required (because there is no retail distribution).

This proposal raises no regulatory concerns. If retail investors cannot buy a security, then they face no potential harm. Market integrity and other regulatory concerns are addressed via other rules, notably the UK Listing Rules and the DTRs, and the AIFMR.

The AIC also disagrees that the manufacturer should have a regulatory obligation to distribute core information. The reasons for this view are set out in response [to question 1](#).

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.

The AIC does not agree that manufacturers should have a regulatory obligation to prepare and distribute core information. The nature and format of information dissemination should be a matter for the market to decide. See response [to question 1](#).

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

Where a CCI is made available to retail investors, the manufacturer should be responsible for producing a product summary. The AIC **recommends** that for an investment company, or other AIF, the requirement should automatically fall to the AIFM.

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.

The AIC agrees that the product summary should not have a prescribed design or layout. This will maximise flexibility for preparers. Factsheets are not currently regulated. They are clear, accurate and accessible. The AIC expects the same would be achieved by allowing preparers to design the product summary.

The AIC's comments on the specific disclosure requirements, for example, on cost, performance and risk are discussed in reply to other questions.

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.

The AIC does not agree that distributors should be able to prepare their own CCI product summary. They may wish to provide tailored information to their clients, based on data provided by the manufacturer. There is no reason for this to be a CCI product summary. For regulatory purposes, the product summary provided to the client would be the one prepared by the manufacturer.

It seems unlikely that distributors would choose to provide their own product summary. This would increase their compliance obligations and risk for little reason. They should be able to rely on the summary provided by the manufacturer. It would not be helpful for consumers to have different product summaries provided when they buy from different distributors. This will cause confusion.

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?

The AIC agrees that distributors should be required to provide the product summary to the consumer and that this could be done electronically (for example, by email). CP24/30 notes potential limitations of 'durable media' raised by firms. These should be resolved as part of finalising the requirements.

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?

An investment company does perform activities specified in Regulation 5 of the CCI Statutory Instrument. The distribution of securities issued by an investment company to retail investors would also fall within the CCI regime.

The fact that investment companies are in scope does not justify the FCA imposing regulatory obligations on an investment company except to the extent that, where the company is acting as its own AIFM, the company should publish the information required by the rules.

The AIC **recommends** that the FCA designates the AIFM of an AIF as the manufacturer responsible for CCI compliance. This would address the regulatory requirement to deliver CCI disclosures. It would also identify an entity which is responsible for those disclosures. This approach would mean that an investment company which is not acting as its own AIFM would have no obligations under the CCI regime. In particular, the AIC **recommends** that the FCA should not impose principles for business and basic product governance standards on investment companies.

There is no regulatory justification for imposing business and basic product governance standards on investment companies whether it is acting as its own AIFM. These compliance obligations are not required to deliver the CCI disclosures. Regulating in this way is contrary to the FCA's ambition to deliver a streamlined, competitive regulatory regime.

It would abandon an approach which successfully delivered the PRIIPs requirements which the CCI regime is intended to replace. It would also materially change a regulatory framework which has evolved over time, and which balances the needs of investment companies as being both corporate entities and collective investments.

Whether or not an investment company is acting as its own AIFM, the AIC **recommends** that no additional requirements be imposed on the investment company, over and above any requirement to provide a product summary if it is acting as its own AIFM.

The current regulatory framework

Investment companies have obligations under company law, UK Listing Rules, prospectus rules, DTRs, and accounting standards to ensure the company is run in the interests of all shareholders. Other provisions, such as the market abuse rules, also apply to investment companies as they would to other market participants. The AIFMR imposes obligations on

the AIFM which is usually a third-party company but can be the investment company itself when it is acting as its own AIFM.

The rules applied to investment companies are complemented by standards imposed on FCA authorised firms that distribute their securities to retail investors. Brokers, platforms, IFA's wealth managers etc. all have specific regulatory obligations in relation to their conduct and activities. These are overlaid by the Consumer Duty requirements. Taken together, these rules impose robust standards which protect retail consumers.

The FCA has previously concluded that an approach which regulates the AIFM, and distribution, is sufficient to preclude the need to apply regulatory standards directly on investment companies themselves. This regulatory settlement should not be disrupted without a good reason and a clear, evidence-based justification. These conditions have not been passed in this case.

The rationale for the current position.

The FCA has previously decided not to impose regulatory obligations on investment companies (outside of those which also apply to trading companies which also have shares admitted to trading on UK stock markets) because there is not a sufficient justification. Key factors in reaching this conclusion include:

- Investing in an investment company is different from buying a financial services product. An investor has rights which are exercised in common with all other shareholders in that class. They are not customers of the company buying a product provided by the company, with the legal rights that confers.

This is a key reason investment companies are not in scope of the Consumer Duty (unless they are acting as their own authorised AIFM). The FCA had the opportunity to extend its regulatory oversight to the investment company sector when it consulted and implemented the Consumer Duty. It chose not to take this route. Introducing reforms to the content of retail disclosures should not be used as a pretext to change the regulatory status of the investment company sector.

- Conflicts of interest arise when a consumer buys a product provided by a firm. Such conflicts do not exist for shareholders. A firm providing a product has competing incentives to extract a return from the customer and to provide an appropriate service to the client. These competing pressures do not apply to investment companies where the shareholder and 'consumer' are the same person and receive a return from the success of the company.
- Investment companies already have significant obligations under other rules, with systems in place to ensure their delivery. Overlaying obligations by the FCA which potentially reach across the broader operation of the company, will materially increase compliance burdens and costs. The company and its advisers will have to consider how the FCA's requirements interact with existing systems. Ensuring compliance with competing frameworks will be difficult to monitor and achieve. This will be the case even though complying with the FCA's expectations will provide no material benefit to the company or its investors. The FCA recognises this in its approach to trading companies where their shares are admitted to UK public markets. It should do the same for investment companies.

Implementing the CCI regime raises no new regulatory issues that change this position.

A significant, additional regulatory burden

The FCA's proposal for additional regulation is extensive. It envisages regulatory obligations which could apply to any and all activities conducted by the investment company.

DISC 4.4.1 requires investment companies to meet standards "*in relation to all elements of its business relating to activities within the scope of DISC*". It then sets out requirements to "*act with integrity*", "*due skill and diligence*". It highlights the need for the investment company to "*organise its affairs responsibly*", including requiring "*adequate risk management systems*". It also discusses protection of assets and requires the company to disclose to the FCA "*anything related to itself and its activities of which the FCA would reasonably expect notice*".

There is no doubt that this is potentially a significant regulatory obligation, which could conflict with the arrangements and compliance obligations that an investment company will already have to manage.

The fact that DISC requires the publication of information is not a limit on the regulatory implications. After all, the provisions also reach into the overall organisation of the company and protection of its assets. It creates disclosure obligations related to "*anything relating to itself*" that the FCA might reasonably expect to hear about. The FCA provides no guidance to what it might expect to be told about. Any number of issues could, in theory, be relevant. The FCA is nonetheless proposing that unregulated firms, including investment companies, need to monitor and comply with these matters.

DISC 2A.2.1 imposes other obligations on unauthorised firms. Again, these are not related to the publication of information in the product summary (or core information). They were not imposed on the sector by the PRIIPs regime which the CCI rules are intended to replace.

DISC 2A.2.1 R (1) (a) requires a "*product approval process*" with specified conditions. It requires an assessment of "*all relevant risks*" including those relevant to vulnerable customers.

DISC 2A.2.2 compounds the specified increase in regulatory obligations by then applying the provisions of the Consumer Duty "*as if it were guidance*". This is even though the Consumer Duty, which was only recently introduced, did not impose these expectations on investment companies.

Unless they are withdrawn, the FCA's proposals impose a significant change in the regulatory status of investment companies. They do not consider the fact that investment companies already have a comprehensive framework of legal compliance obligations in place which is designed to protect shareholders and ensure that the company operates in their long-term interests.

Duplication of existing requirements

A full, point by point, analysis of where the FCA's proposals duplicate rules already applying to investment companies would be a significant undertaking. It would have to take into consideration company law, accounting and regulatory rules, the AIFMR etc. It would mean a legal analysis of whether the FCA considers issues in the same way as other legal

obligations. The AIC expects that the FCA has not done this analysis itself. That said, it is evident that there are significant overlaps between the FCA's proposals for unauthorised firms and the rules that apply to investment companies. For example:

Disclosure to the FCA: (DISC 4.4.1 R (5) requires an unauthorised firm to disclose "*anything related to itself and its activities of which the FCA would reasonably expect notice*". Investment companies have obligations under UKLR 1.3.1 to provide information to the FCA "*to protect investors or ensure the smooth operation of the market*". Also, to provide "*any other information ... the FCA may reasonably require to verify whether listing rules, disclosure requirements, transparency rules and corporate governance rules are being and have been complied with*". These rules clearly duplicate one another in many respects.

That said the UKLR have the benefit of being focussed on specific rules and on the investment company's status as an issuer. The UKLR are well established, and the implications understood. Presumably they would deliver much of the requirements of DISC. That said, there is no indication as to whether complying with the UKLR would satisfy the requirements of DISC. If they do overlap entirely, then there is no justification for the DISC requirement. If they do not, then the FCA should explain where the regulatory gap is.

Act with reasonable care: DISC 4.4.1 R (3) requires unauthorised firms to act with due skill, care and diligence. Under section 172 of the Companies Act 2006 directors of UK investment companies must "*act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole*". In discharging this duty, directors must have regard to factors, including the "*likely consequences of any decision in the long term*" and the desirability of maintaining "*a reputation for high standards*" among other considerations. Companies in other jurisdictions, such as the Channel Islands, have very similar legal obligations. It is unclear if these legal obligations mirror the FCA's requirements. Again, where they do, the requirements are duplications and therefore unnecessary. Understanding if, and where, they may overlap or not is a complex consideration. Understanding this creates compliance burdens. Even if there are differences, the FCA has not explained why this is a regulatory concern.

Adequate risk management systems: DISC 4.4.1 R (3) requires unauthorised firms to have adequate risk management systems. Investment companies have broad duties, including those mentioned under company law, to understand and respond to the risks facing the company. Accounting and corporate governance principles require an investment company board to monitor and understand the principal risks facing the company and manage and mitigate these risks. They establish internal controls frameworks, which are considered as part of the audit process. The UK Corporate Governance Code is introducing a requirement for the board to make a public declaration on their internal controls. Where an investment company has a full scope AIFM the AIFM also has risk management obligations. This includes the requirement to "*implement adequate risk management systems to identify, measure, manage and monitor all risks relevant to each AIF investment strategy and to which each AIF is, or may be, exposed.*" (FUND 3.7.5). These obligations provide a proper framework for risk management of investment companies. It remains unclear if they would meet the FCA's expectations. This creates compliance challenges.

These examples demonstrate that the FCA's proposals are duplicative, disproportionate and unnecessary. They also create complexity and costs.

Inadequate regulatory process

The approach adopted does not meet the standards the AIC would expect of the FCA, particularly on an issue as important as changing the regulatory status of investment companies. Before it adopts any measures of this nature it must provide:

- a full justification as to why a change is required.
- a 'gap analysis' showing where the current regulatory framework is insufficient to deliver an appropriate regulatory outcome.
- evidence of any detriment arising from the current position.
- a full and explicit consultation on the implications of each of the specific changes proposed.
- a full cost benefit analysis of the impact of the change.

The FCA should not impose additional, wide ranging regulatory obligations on investment companies, particularly given its commitment to proportionality and regulating in a manner consistent with international competitiveness and growth.

Advancing these proposals without a considered regulatory justification raises the implicit challenge to “*explain why we should not regulate*”. This is the opposite of how it should approach its role. Instead, the FCA’s underlying question should be “*This is how we propose to regulate and why – do you agree?*”.

The problems arising for investment companies are likely to similarly affect other structures. The AIC therefore **recommends** that no additional obligations should be imposed on unauthorised manufacturers. If the FCA persists with this approach more broadly, then the AIC **recommends** that investment companies (that is, listed closed-ended funds) should be explicitly excluded from any provisions applied to unauthorised manufacturers. The AIC **recommends** that the regulation should specify that where securities issued by an investment company are available to retail investors, the AIFM is responsible for CCI compliance. This will achieve the purpose of the CCI regime, without raising broader regulatory concerns.

Question 19: Do you have any other comments on what obligations manufacturers should have in the CCI regime?

In response to other questions, the AIC has **recommended** that manufacturers should be able to choose to prevent retail distribution by withholding the product summary.

In response to other questions, the AIC has **recommended** that, for investment company securities, the AIFM should explicitly be made responsible for the CCI requirements. This will maintain the current regulatory position and deliver the requirements of the CCI framework.

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

It is a concern that the CCI proposals (in this and other areas) go far beyond what is required to replace the PRIIPs rules. The proposals for distributors are an example of this problem.

The AIC does not agree that distributors should be able to prepare an updated product summary. The AIC does not agree that distributors should have to review product information provided by the manufacturer and decide if additional information is required. They should be able to rely on the information provided in the product summary.

The CCI rules should require the distributor to provide the product summary. It is reasonable for the distributor to provide their client with the product summary in a durable medium. This would reproduce the requirements under PRIIPs. It is not reasonable to have any expectation that the distributor would provide its own product summary.

Distributors may choose to provide additional information to their clients. They should be able to pass on information provided by manufacturers in the same way they do now. Currently product information is provided, without raising regulatory concerns, using the EMT. The EMT is an unregulated, industry solution for providing data on PRIIPs and for the purposes of MiFID compliance. This mechanism has been dependable. The FCA has not provided a justification for regulating this process. The Consumer Duty, in any event, includes consumer understanding obligations. This provides a backstop for ensuring that distributors properly inform their clients.

The FCA has said previously that the introduction of the Consumer Duty may create opportunities to remove rules in other areas. Yet here, it is increasing the regulatory burden even where there is no regulatory gap. Any issues that could arise are already addressed by the Consumer Duty.

Another technical aspect of the requirements should be reconsidered. Distributors will have to verify that an 'up to date' product summary is available. Whether or not a disclosure is up to date is a matter of judgement. It is an imprecise test for distributors to assess. As the product summary will have to be reviewed at least annually, the AIC **recommends** that distributors be required to satisfy themselves that a product summary is no more than 15-months old. This will allow for an annual review, with a three-month period allowed for producing and approving an updated product summary. It will also provide sufficient time for an annually updated product summary to be passed through to data providers and then onto distributors. This is a proportionate requirement. The risk that this will result in out-of-date information being given to investors is minimal as the manufacturer would update its product summary before 12 months has passed if there is a material change of circumstances related to the CCI.

Key elements of distributor disclosure apply via the MiFID II requirements. These obligations require fundamental reform. In particular, the AIC **recommends** abolishing the MiFID II requirements to provide an aggregated 'single figure' cost disclosure and a disclosure showing the 'cumulative impact' of costs. These issues are discussed in more detail in [the introduction](#).

Abolishing both these disclosures should be a priority. The AIC **recommends** that the FCA confirms its intention to address both these issues in its forthcoming consultation on MiFID II disclosures.

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.

The FCA's proposals must be changed to support better investor decision making while also being proportionate and maximising competition in the public interest.

To help this process the FCA should review:

- **The role of the product summary:** The PRIIPs regime mandates the publication of the KID - a pre-sale disclosure which estimates future costs. MiFID II required a 'post-sale' view of costs. MiFID II periodic disclosures look back at costs incurred. Presenting costs on a different basis at different times in the consumer journey is confusing. The CCI regime, and MiFID II disclosures, must present costs on one basis only. Except for new products, which may need an estimate in the initial launch period, the AIC **recommends** that past costs should be required by both CCI and MiFID II disclosures.

This has implications for the content of the product summary. The FCA should specify if it is intended to inform investors both before and after a purchase has been made. The consultation focusses on its role as a presale disclosure. The product summary will also be on the CCI's website and is likely to be used by existing investors to review their investments by looking at the latest version online. The AIC **recommends** that the product summary must disclose costs in a way which supports consumer understanding before purchase and while the investment is being held. This means withdrawing the proposed summary costs illustration.

- **Terminology:** CCI and MiFID II cost disclosures must explain the position of investment companies correctly. The current approach does not differentiate between 'expenses' paid by the investment company to its service providers and 'fees' paid directly by the investor to a firm. Investment companies' expenses include the annual management charge, depositary fees, board expenses, listing fees etc. Fees which are paid by the investor directly might include, for example, platform or stockbroker charges. In the normal course of holding an investment company's shares, there are no fees – costs – levied by an investment company directly on investors.

The terms 'costs and charges' which is used in the rules are not sufficiently explanatory. Disclosures should make a clear distinction between expenses paid by the company and fees charged to the investor. This will support better consumer understanding.

- **'Costs' in context:** The proposals say that the product summary must contain an explanation of the "*importance*" of costs and charges and their "*impact*". As discussed above, the AIC considers the terminology of 'costs and charges' to be unhelpful. The AIC **recommends** that the product summary should instead refer to "*expenses*" for 'costs' and "*direct fees*" for 'charges'.

The AIC **recommends** that DISC 3.3.1 R be revised to clarify what the FCA means by the importance and impact of costs and charges.

Effective disclosure should help highlight the value of investments and not just the 'cost'. This is consistent with broader efforts to create an investment culture and encourage people to balance holding cash with investments that can grow in value over time.

Explaining the 'role' of costs and charges instead of the 'importance' will support better decision making by putting these fees and expenses in the context of the 'value' offered by a CCI. It would help preparers to show what the different expenses are and how they deliver the investment return. For example, some expenses are necessary to maintain the investment vehicle itself. Others pay for the asset manager to manage the overall investment approach and deliver the investment strategy. Transaction charges arise when specific investments are made. The meaning of the term "*importance*" is vague when compared with a requirement to discuss the 'role' of expenses and fees.

The current requirement to explain "*the impact of costs and charges the investor pays on the potential growth*" of the CCI risks repeating the flaws of the MiFID II requirement to discuss the cumulative impact of costs. This terminology has previously led to an over emphasis of the 'cost' side of the equation without consideration of the benefit, that is, access to an investment which delivers a financial return.

The FCA wants firms to "*ensure there is a reasonable relationship between the price paid for a product or service and the overall benefit a consumer receives from it.*" (PS22/9, para 7.1.) The Consumer Duty requires manufacturers and distributors to consider whether products, including CCIs, offer investors value. This creates a basic underpinning to ensure the investor interest is considered.

The AIC **recommends** that the requirement to explain the "*importance*" and "*impact*" of costs and charges (DISC 3.3.1 R (1) (a)) be deleted and replaced with a requirement to explain the "*role*" of costs and charges (or rather expenses and fees). This will help preparers offer explanations which allow investors to better understand the value of the products and services they purchase as well as the expenses incurred.

- **Summary costs illustration:** The proposed summary costs illustration will add up the entry costs, exit costs, ongoing cost figure and transaction costs into one number. This adds together fundamentally different expenses. It is likely that the misleading summary costs illustration will be disseminated through the distribution chain and distort the market for investment company shares. At each stage of the consumer journey, where the summary cost illustration is used, it will act as a barrier to effective decision making.

Aggregating costs with different characteristics is a barrier to consumer understanding because the investor is given a false impression of the impact of expenses and fees. For example, the level of any entry costs should be disclosed before a purchase is made. This information would be set out in the product summary. However, including these amounts in the summary cost illustration is unhelpful. It implies that these amounts may be charged again when this is not the case. This is untrue, misleading and unhelpful for prospective investors and current investors reviewing what the long-term costs of holding a CCI might be. The summary cost illustration will obscure the ongoing expense of using the vehicle, which is the critical information. Giving the ongoing expenses proper prominence will help investors shop around to secure long-term value. They can assess this alongside the separate disclosure of any entry and exit costs which may be charged.

The proposed summary cost illustration recognises that some expenses should not be summed. It excludes incidental/performance fees. This is the correct view as there is no certainty that these would be charged. The same principle applies to transaction fees. Unlike the ongoing expense, there is no certainty they would be charged at a similar rate in the future. This will depend on the investment approach and other factors (such as the economic cycle). Summing the ongoing expense, which is predictable, with the transaction costs is misleading.

Transaction fees should be discussed in the context of delivering the investment strategy. They should not be considered or disclosed as if they were equivalent to ongoing costs, which they are not.

Transaction costs are different in character from the ongoing expenses (which should be the primary cost disclosure) because the asset manager has clear incentives to reduce these expenses. The incentives for managers to reduce costs where the firm is not the beneficiary was recognised in the FCA's own Asset Management Review. Disclosures which aggregate expenses paid to the manager with expenses that are not paid to the manager should be avoided. The only expenses which should be aggregated with the fee paid to the manager are those which are required to maintain the vehicle itself. In an investment company this would include, for example, the depositary, board and audit fees. Only these genuinely 'ongoing charges' taken from the investors' assets to service the vehicle should be aggregated. The fees to deliver the investment strategy should be disclosed separately. This would include transaction fees, gearing expenses and pull-through expenses of funds not managed by the same manager.

The most decision-useful information will be to highlight the ongoing expenses. This can be supported by separate, disaggregated disclosure of any other fees and expenses arising. The AIC **recommends** that the requirement for a summary cost illustration be deleted.

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

The AIC does not agree with the proposed approach to disclosing transaction costs. The AIC does not agree that transaction costs should be included in a summary cost indicator.

The AIC does not agree with the slippage methodology. The requirement to calculate slippage is burdensome. It provides information which has no value to the investor.

The FCA states that it has received no evidence that disclosure of slippage is misleading (para 5.19). However, it has provided no evidence that the slippage methodology provides any value to retail investors.

The FCA's conclusion that the slippage methodology provides useful information to investors is surprising given that "*the assumption behind slippage cost is that the short-term market movements are random, and that, at the level of the portfolio, when these random components are added together, they should be close to zero*" (para 5.20). If a close to zero disclosure is expected, then there is no value in calculating these figures for consumer disclosures.

The fact that slippage methodologies can result in negative costs illustrates how they can be confusing for investors. Allowing preparers to adjust disclosures to prevent negative cost disclosures is proof that the methodology can result in confusing disclosures. It means that the methodology could result in summing of the “*random components*” which leads to the disclosure of a (misleading) higher cost. It could also lead to genuine transaction costs being reduced because of how the random components of the calculation add up.

Before the legislative changes which excluded investment companies from PRIIPs disclosure, the AIC identified 74 companies with zero transaction costs. We assume that this is because explicit transaction costs were outweighed by negative slippage components. In this case the slippage methodology would seem to hide levels of explicit costs.

Investment companies are potentially more prone to slippage costs which do not sum to ‘close to zero’ because they offer access to concentrated and less frequently traded portfolios. This is because investment companies may be better able than open-ended funds to take such positions.

This is not to say that asset managers should not evaluate the efficiency of trading practices. Understanding the differences between arrival prices and the price at which a trade is executed is important for achieving best execution. However, other rules address best execution. Regulating to encourage efficient trading practices is very different from providing decision-useful information to retail consumers.

Also, if the slippage component of transactions is not zero, then this will be expressed in the performance of the portfolio. This is a more useful disclosure than including slippage into transaction cost disclosures.

The AIC **recommends** abolishing the requirement to calculate slippage for the purposes of transaction cost disclosures. Instead, the CCI disclosure should cover explicit transaction costs only. If the FCA is committed to retaining the slippage methodology, it should support this approach with evidence from consumer testing.

The AIC also disagrees that transaction costs should be aggregated into other costs as part of a summary costs illustration. The AIC **recommends** abolishing the proposed summary costs illustration (see our response [to question 21](#)).

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.

See our response [to question 22](#).

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

The FCA’s proposed approach to pull-through costs for actively managed CCIs is one of the most flawed aspects of its proposed approach to CCI disclosure.

Imposing pull-through cost disclosures for actively managed CCIs is particularly disappointing as the FCA has previously recognised that investment companies’ costs should not be included

in UCITS ongoing charges. The FCA's proposals do not take account of the previous debate and its own conclusions.

The AIC agrees with the FCA that index trackers should not 'pull through' the costs of investment companies held in their portfolios. As the FCA states, this would create "*market distortions*" by making the funds appear "*unduly expensive*" (para 5.26). Pulling through investment company costs into the costs of the tracker would be misleading as they are already accounted for in the value of the portfolio. Were these costs to be included this would 'double count' those expenses.

Also, pulling through investment company expenses into trackers' costs would create incentives to construct and use indexes that exclude investment companies. This reduces the opportunities for passive funds to diversify and impacts their potential investment returns. Investment companies have a record of outperforming the UK stock market (see [Making people better off](#) page 5). Creating disincentives to hold investment companies in trackers would be a poor outcome for investors. It would undermine liquidity in investment companies, as they would see an important source of demand reduced. It would be very harmful for UK listed markets, which include a considerable number of investment companies. Investment companies make up over 90 constituents of the FTSE 350.

The arguments for stopping pull through of the costs of collective investments for passive CCIs also apply to actively managed CCIs where the active manager receives no financial benefit. This would mean that a CCI with an active investment strategy managed by Firm A could hold a collective investment managed by Firm B without adding any underlying investment expenses into the CCI's costs. However, were Firm A to make an active investment decision to buy another collective investment also managed by Firm A, then the underlying management and administration expenses paid to the manager would be pulled through unless they were fully rebated. Disclosing on this basis prevents the structuring of investments through layered funds to hide costs from investors.

Treating pull-through costs in this way will:

- **Support competition:** Focussing the ongoing charge disclosure on the cost of maintaining and running the CCI (excluding the cost of delivering the investment strategy, which would be highlighted elsewhere) provides the most decision-useful information for the investor. They can use this to compare, on a like for like basis, CCIs whether they offer a passive or active investment exposure.

This will provide a basis to consider the expense of the CCI in relation to the performance it is able to achieve. An active manager will be seeking to outperform an index return. Whether they achieve this will be shown in the performance. Excluding the underlying costs of collective investments (for both strategies) from the ongoing charge allows the value to be assessed on the key ongoing expenses and performance.

Requiring an actively managed CCI to include underlining costs of collective investments would fundamentally distort considerations of the expenses of the vehicle. It would prevent comparison of pricing and undermine competition in the public interest.

Discriminating between how a passive CCI and an active CCI discloses pull-through costs makes no sense. Consider a passive CCI tracking the UK's 250 largest investment

companies competing with an active CCI selecting from the same universe. The key factors to compare should be the expenses of each vehicle and their performance. This provides a way to assess value. However, pulling through the costs of the investment company, or other collective vehicle, for the active manager only creates a fundamental distortion in favour of the passive CCI. Any consideration of performance will be skewed by the clear and significant difference in the costs.

Also consider the position of 'active' Exchange Traded Funds (ETFs). These CCIs may track an index with a strategy to vary their exposure to that universe by up to 1%. The intention is to achieve outperformance. If a small, but consistent outperformance can be achieved this may be extremely attractive to investors. The FCA's current proposal would mean that an active ETF would include pull-through costs of investment companies. A passive tracker would not (even if it operated to a 1% tracking error). The distortion arising is clear. The active ETF would be unable to compete against its passive counterpart in the same index. It would seem disproportionately expensive given the intention to have a marginal active component. In this case the FCA's proposals are not only harming competition, but they are also undermining innovation in the funds sector.

- **Provide decision-useful information:** The key cost metric for a consumer is the expense of investing in the collective investment they purchase. Like for like comparisons (where both active and passive CCIs exclude pull-through costs on the basis proposed) allows fair comparisons. Aggregating pull-through costs to the expenses of the actively managed CCI prevents this.
- **Prevent double counting of expenses:** The expenses incurred in a collective investment held in the portfolio of an actively managed CCI are already factored into its asset value. To include these expenses in the costs of the CCI as well, in effect, double counts these amounts. It implies that these expenses will be incurred again, when this is not the case.
- **Aligns incentive of asset manager with investor:** The asset manager has incentives to control the expenses where it is buying services. This will be the case for any expenses paid to other external service providers. Overpayment will only lower the assets on which the managers own fees are based. Its incentives are aligned with the interests of the CCI's investors.

If an active CCI manager considers that holding a collective investment where they receive no fees is the best option for delivering the investment strategy, it should not be penalised to do so. This will ensure investors can benefit from another manager's skills and resources. It may also provide additional, cost effective, diversification. Holdings in collective investments not managed by the same manager will only be made where the firm making the allocation judges this to be aligned with its own ambition to achieve the optimum investment outcome.

Pulling through underlying fund costs to the ongoing charge of an active manager that does not manage that underlying fund will mean that manager will not make investments that would be in the interests of its investors. CCI disclosures should not create this outcome.

A decision to invest in a collective investment not managed by the same asset manager is a judgement on the best way to deliver the investment strategy. It is analogous to borrowing for the purposes of investment (gearing). In this case the cost of the debt (the interest) is

paid to the lender. The manager receives no direct financial incentive. The intention is to generate a higher return, which provides a benefit to the investor. Indeed, if the cost is too high, then the performance of the fund will suffer. The same dynamics underpin the decision to invest in another collective fund managed by a different manager. If the fund is too expensive and does not perform as desired, the active manager will face criticism and potential reduction in its own fee. There is no financial advantage in making a poor decision to invest in a collective investment vehicle managed by another manager. The goal is to deliver the investment strategy in the most successful way. The investor will judge the performance achieved and whether this merits the price of investing in the actively managed CCI.

Where pull through costs are excluded from the ongoing charge, the asset manager's own fee is highlighted, which maintains incentives to set it at a rate which is competitive with other CCIs operating in the same asset class. These factors help align the interest of the manager and the investor in an active CCI.

- **A focus on value:** Excluding pull-through costs where there is no financial benefit to the manager of the CCI balances considerations of price and value.

An active manager of a CCI has the expertise and incentives to decide to invest in another collective investment based on the value provided. This process actively supports a market which is orientated to providing value for money. This should benefit consumers, more widely.

The FCA's proposal to pull through fund costs for active managers (even when that manager receives no financial benefit) is a manifestation of the problems of aggregating costs of different types. Aggregated cost disclosure of this nature is always a barrier to better decision making and competition. This approach will always divert investors' attention from more useful information and reduce incentives to compete on standards and price.

The AIC **recommends** that the ongoing charge of actively managed CCIs should exclude the expenses incurred by other collective investments held in the portfolio if the asset manager receives no financial benefit from those holdings.

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?

The AIC agrees that the operational costs arising from the management of real assets held by an investment company should be excluded from cost disclosures. These expenses are intrinsic to maintaining these assets and producing an investment return. They would be incurred were an investor in an investment company to invest directly in those assets instead of via an investment company share. These expenses are fundamentally different in character from the expenses traditionally covered by cost disclosure.

The AIC agrees that gearing costs should not be disclosed in the ongoing charge. These expenses are payable to an external provider of debt, such as a bank. The incentives for the board and the manager to secure cost-effective debt facilities are strong. The character of these expenses is fundamentally different from other expenses as they secure additional assets to be deployed on behalf of the investor. The benefit of gearing depends on the

effective deployment of these resources. Simply adding in the costs of gearing to the ongoing charge provides no helpful information to the investor. It makes it difficult to compare investment options. The AIC agrees that the use of gearing should instead be explained in the risk-reward narrative disclosure. This will offer decision-useful information to consumers and enable better comparisons between investment companies and other CCIs.

The AIC agrees with the product specific cost proposals for investment companies and **recommends** that they should be adopted.

The AIC agrees that, where stamp duty is chargeable on an investment company share, this should be disclosed to the consumer before they make a purchase. However, stamp duty is not an expense arising within the investment company. It is not an entry cost charged by the company or the manager. It is a tax due when the shares are purchased. It should therefore be disclosed by the distributor. It should not be included in the product summary. Were it to be included in the product summary, it should not be added to other expenses in the proposed summary cost illustration. The AIC has **recommended** that the proposal for a summary cost illustration be withdrawn.

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.

As discussed above (including in our response [to questions 21](#)) the AIC does not agree with the proposal for an aggregated summary cost illustration. It is misleading to aggregate expenses with quite different characteristics and present a single figure to investors. The product summary will be used by investors who hold shares. These consumers will be told that they will face entry costs when these would not arise. Also, during their holding period, investors in a CCI will not face any exit costs. The summary cost illustration will nonetheless tell them that these fees affect their investment during the holding period. The AIC **recommends** the proposed summary cost illustration should be abolished and deleted from the product summary.

The AIC **recommends** that the reduction in yield calculation should only consider the ongoing charge. These costs are predictably deducted from the assets of a CCI. They provide a reasonable basis for a consumer to consider the relative costs of competing products and take a view on whether they are justified.

The reduction in yield calculation should not include transaction costs. Transaction costs are highly variable. Expenditure in one period may not reflect those in another. These expenses depend on unforeseeable variables, such as economic conditions and the availability of investment opportunities. Transaction costs are especially variable for real assets, where transactions may be infrequent but time and resource intensive. A high level of expenses in one period may not be repeated in the next. The costs of transactions in real assets may vary significantly for different transactions, where different factors will have to be assessed in each case. Including transaction costs in the reduction in yield is not helpful to the investor. It repeats the flaw of aggregating costs of diverse types in one calculation.

The AIC **recommends** that transaction costs should be disclosed separately (see response to question 22). The consumer will be able to make a judgement about the value of incurring

those expenses in the context of the performance information provided. They can then compare the transaction costs of CCIs with substitutable investment strategies.

The exclusion of transaction costs from the reduction in yield calculation is further reinforced as the proposed basis for calculating these costs (the slippage methodology) is flawed (as discussed in our response [to question 22](#)).

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?

It is difficult to comment on the FCA's proposals as they lack detail. Notwithstanding this limitation, the AIC agrees that there should be no conflict between the MiFID II requirements and the CCI rules. Therefore, for example, operational and debt servicing costs of investment companies should not be costs for MiFID II purposes.

The AIC's primary concern is that the FCA will repeat the error of requiring materially different costs to be aggregated in a way which is unhelpful to the investor. This concern is reinforced by the proposal for a summary cost illustration, which incorporates this fundamental flaw.

If the problem with the summary cost illustration is not resolved, it makes it likely that a misleading cost figure will be drawn through into the MiFID II disclosures. This will perpetuate the problems created by the current regime. It will be particularly damaging to the investment company sector and undermine its capacity to compete with trading company shares that can function as substitute investments. It will present cost information to consumers in a manner which is inherently misleading.

The AIC remains concerned with the FCA's likely approach to MiFID II disclosure.

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

A single figure risk indicator can be a powerful influence on investors. This is why the proposal should not be adopted. The risk score is misleading because it measures volatility and ignores other risks. It does not offer a link between risk and the potential for higher returns.

The threats to consumers of this approach can be seen where open-ended CCIs are holding illiquid assets. These CCIs, such as Long-Term Asset Funds (LTAFs) or NURS holding real estate, may exhibit lower ongoing volatility than, say, investment companies holding the same assets. This is expected as the investment company share price will change daily. In contrast, the LTAF or NURS may be valued less frequently. LTAFs, for example, can offer trading opportunities once a month (with a 90-day notice period) suggesting monthly valuations. This will tend to depress a volatility risk rating.

However, an investor in an LTAF or NURS holding illiquid assets should also be wary of liquidity risks. It is not clear how the manufacturer of a CCI would assess liquidity risk and add this into a volatility measurement. It is also likely that preparers will have a liquidity optimism bias. They will overestimate the CCI's ability to deliver liquidity and capacity to redeem in accordance with the standard redemption offer. While redemption on the standard terms may be possible in positive markets it is far less likely to operate as intended in more

testing conditions. This is when retail investors may need liquidity the most. This fundamental risk will not be captured in a risk rating. Of course, there may be an attempt to explain this risk in the narrative. But, as the FCA has already acknowledged, the misleading headline figure is likely to be a far more powerful and influential factor.

Rather than including a volatility measure with significant drawbacks, particularly for less liquid assets, the FCA should instead focus on effective narrative statements on risk and reward.

As far as volatility is an important issue for investors, this is far better shown in the line graph of performance that is to be included in the product summary. This representation of volatility provides an accessible view of volatility. This presentation helps better decision making; the risk score does not.

The AIC **recommends** deleting the requirement to include a standardised horizontal risk score. If the risk score is retained, the AIC **recommends** that any open-ended CCI holding less liquid, or hard to value assets, is automatically rated as at least a 9 on this scale. Also, if the risk score is retained, the AIC **recommends** that it includes a link to potential returns. It should provide context to say that higher risk CCIs may be able to secure higher returns, and that lower risk CCIs may typically achieve lower returns.

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

The AIC agrees with the FCA's approach. The AIC supports discussing risk and reward together. The AIC agrees that these disclosures should be clear and concise and focus on the primary factors that will affect the risk and return profile of the CCI.

It is also important that the FCA consider how risk is discussed for other types of products, including cryptocurrencies, so that CCI's are not seen as uniquely risky, when other product types may have greater risks to the retail investor.

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.

The AIC does not agree that a risk score based on historical volatility should be included. The problems with the methodology are recognised by the requirements to set risk scores and require changes if the manufacturer considers them to be too low. The volatility of an investment is more clearly shown in the performance line chart (see response to question 28 for further discussion).

If a risk score is to be included, the AIC **recommends** that it should be based on historical volatility over the previous 10 years. A longer period is more likely to capture periods when volatility has been high. It makes it less likely that risk scores will be reduced because of economic conditions that have been stable for a limited period, which may obscure the longer-term volatility risks of an asset class. As the FCA says in its discussion of performance data "*Typically, a 10-year period is more likely to cover a full market cycle and is more likely to capture the product's volatility and performance over time*" (para 7.10).

Also, using 10-year data will align the risk score with the period used to show performance information. This will provide a more balanced view of risk and return to prospective investors.

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.

For reasons stated above, the risk score should be abolished. If a risk score is to be included, the AIC agrees that a scale of 1-10 may be less misleading.

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.

It is unrealistic to assume that asking firms to consider amending the risk class will mean effective risk disclosures. Firms will have incentives to follow the methodology to minimise compliance risks. Giving preparers discretion to change the risk score makes it difficult for distributors to rely on the information. It makes it more difficult for consumers to understand what risks they are comparing.

The risk score approach is inherently flawed. If it is to be retained, the AIC agrees that firms should consider amending the risk class where they deem it does not accurately reflect the risk of the product.

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

If the risk score is retained, the AIC **recommends** that any open-ended CCI holding less liquid, or hard to value assets, is automatically rated as at least a 9 on this scale.

The AIC notes that VCTs are to be automatically rated as 9. If the risk score is retained, the AIC accepts that a fixed score should be applied. VCTs invest in smaller UK businesses seeking growth capital. They are riskier than some other CCIs, for example, those holding listed companies. They tend to exhibit lower volatility because they are less frequently valued and because secondary market trading is low because most investors subscribe for shares to benefit from the tax relief. However, the AIC does not consider that the score for VCTs should be 9. A 10 score is required for a CCI where the consumer could lose more than they invest. VCTs are risky, but far from that category.

Reforms to the PRIIPs Summary Risk Indicator (SRI) made VCTs an automatic 6 on a 1 to 7 scale. The AIC **recommends** that the new scale should be broadly equivalent and therefore that VCTs be allocated an automatic 8 score. This places VCTs within what the FCA describes as the “highest risk” categories (para 6.46) but not at the very top of that range.

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.

The AIC has no comments on this question.

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

The AIC agrees that the product summary should show past performance. Also, that this should be shown as a line graph over 10 years. For an investment company share, this would show the Share Price Total Return. Also, the performance should be shown net of costs.

One benefit of a line graph is that it gives investors a better understanding of the possible volatility of a CCI. This is decision useful information. This presentation also makes the risk score obsolete. The AIC **recommends** that the risk score be removed from the product summary.

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

The AIC agrees that a line graph over 10 years should be used to show past performance. The AIC disagrees that performance should be shown quarterly. It agrees with the FCA's concern that too few data points could give a misleading appearance of smoothed returns/lower volatility. The AIC **recommends** that monthly data points should be used to show performance.

The AIC agrees that preparers of product summaries for investment companies should have the option of including a line showing historical NAV as well as historical share price. However, this should not be compulsory. It should be for the preparer to decide if the additional information is helpful for consumers.

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.

The AIC agrees that past performance should be shown over 10 years. This will reinforce broader messages about the importance of long-term investment. It will help show the variability of performance over time. A 10-year period is more likely to capture cyclical factors that may affect performance.

On a technical note, DISC 3.4.5 requires that the units of the x-axis must be in calendar years. However, this should not imply that the 10-year period should run from 1 January on the initial year. The presentation should allow the period to start within a year and run up to 10 years from that point.

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

The AIC agrees with the proposed requirements for the product summary. It has significant concerns about the proposal that data used to prepare this line graph must be distributed as core information.

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

The AIC agrees with the required basic information.

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

The AIC has no comments on this question.

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

The AIC is concerned that the proposals, as they stand, impose additional obligations on companies as 'unauthorised manufacturers'. The Cost Benefit Analysis (CBA) does not consider the implications of this fundamental change in position. The AIC is concerned that the FCA has not considered or explicitly consulted on the implications of this for the investment company sector. This lack of analysis supports the AIC's **recommendation** that for investment companies, and other AIFs, the AIFM should be made responsible for CCI compliance (as is currently the case with PRIIPs disclosures).

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To discuss the issues raised in this paper please contact:

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The Association of Investment Companies consents to this response being made public and to its name being included in any published list of respondents in relation to this consultation.