FCA
Financial Services Consumer Panel

Email: enquiries@fs-cp.org.uk

20 March 2025

By email: cp24-30@fca.org.uk

Dear FCA,

Financial Services Consumer Panel response to FCA's Consumer Composite Investments (CCI) Consultation

The Financial Services Consumer Panel (the Panel) welcomes the opportunity to respond to the FCA's consultation on Consumer Composite Investments and appreciates the FCA's efforts to help consumers understand the investments products and empower consumers to make effective, timely and informed decisions.

The Panel requests the FCA to consider the following:

- Our response is in the context of retail investors and in line with the Panel's position and vision for how the market should function. It is also in line with our previous consultation response[1] on the FCA's call for input on consumer investments. The foundation of this is effective supervision of the Consumer Duty, with rules aimed at addressing foreseeable harm to consumers, including harm caused by greenwashing and unsuitable products.
- The Panel aims to ensure that the resulting regime provides a coherent framework that supports consumers in making well-informed investment decisions, regardless of the investment type or structure (closed-ended or open-ended investment products); and for consumers to understand how investments align with their needs and the risks they are taking.
- The Panel believes it is crucial to ensure consumers:
    - are able to make active and informed choices about whether to invest or not, and that their decisions help them achieve their desired financial goals and outcomes.
    - are provided with clear, understandable, and comprehensive information about those investment products to make well-

[1] https://www.fca.org.uk/panels/consumer-panel/publication/20230522_final_fscp_response_fca_-_asset_management_regime_-_dp23-2.pdf

informed investment decisions before and throughout their investment journey.
  - fully understand the opportunities, trade-offs, risks and costs involved, and easily compare these across options.
  - receive value for money on their investment choices (this includes the investment itself and any associated advice and guidance).
- The Panel continues to believe that consumer testing is important, and it should be conducted both before and after the launch of the regime to validate the proposals that are being put forward.
- The Panel considers that testing should be undertaken to assess how the proposed changes affect consumers' behaviours and decision-making throughout the consumers journey.
- We emphasise the importance of the FCA developing clear metrics to assess its success and impact on consumers.
- We encourage the FCA to consider investments from the consumer's perspective as consumers are unlikely to readily distinguish between open-ended and closed-ended investments. Consumers do not need to be subject to distinctive regulatory requirements as these would add to unnecessary complexity from a consumer point of view.
- The Panel encourages the FCA to engage the Cost Benefit Analysis (CBA) Panel to support a thorough assessment of any material policy change, such as this one, regardless of whether it meets current thresholds (which should be reconsidered).

That said, the Panel broadly supports the proposals outlined in this consultation to:

- Replace EU-derived regulations with a UK specific framework that includes overseas funds in the Overseas Funds Regime (OFR), allowing a quicker response to challenges and emerging harms to consumers at domestic level.
- Establish an outcome-focused Consumer Composite Investment regime centred on the Consumer Duty, ensuring that firms provide clear, relevant, and comprehensible information, enabling consumers to make well-informed decisions regardless of the type and structure of investment.
- Simplify product information to help consumers make informed investment decisions by providing clear, understandable details, increasing their confidence and likelihood of reading product information before investing.
- Ensure standardised information for consumers to be able to make timely and effective investment decisions.
- Enable consumers to receive the right information at the right time and throughout their investment journey. The Panel encourages the

FCA to consider that this information should also be in the right format.
- Encourage innovation in how firms communicate with consumers so that consumers receive clear, consistent and comparable information of their investment products.

The Panel responses to the questions posed in the consultation are included at Annex A below. The Panel looks forward to engaging further this matter.

Yours sincerely,

Helen Charlton - Chair of the Financial Services Consumer Panel

Annex A – responses to questions

Application of the CCI regime

Q 1: Do you have any comments on our approach to applying the Consumer Duty to CCI product information?
Applying the Consumer Duty to CCI product information ensures that firms prioritise clear, relevant and understandable information for consumers to make informed decisions that fit their financial circumstances, risk tolerance and saving goals. The Panel also believes that whilst allowing for flexibility for firms, there should be an emphasis on accessible language and visuals to cater to the varying levels of consumer financial literacy and vulnerability.

Q 2: Do you consider the proposed CCI regime can help distributors to assess value for overseas funds? Please explain why or why not.
The proposed CCI regime can help consumers to assess value for overseas funds as long as the rules for overseas funds align with those of domestic products to ensure consumers can compare them. This alignment could also enhance competition and choice for consumers. The Panel is supportive of the position that products marketed in the UK would need to also follow UK regulations.

Q 3: Do you have any comments on the other considerations in Chapter 2, including ESG and Equality and Diversity considerations?
Product information on environmental and social impacts should align with Sustainability Disclosure Requirements (SDR) and should be clear and integrated into product summaries. Regarding equality and diversity, communication should address barriers for less financially literate consumers as well as vulnerable groups by using simple language and multiple formats (e.g., audio, video, visuals) to make information accessible and easily understandable for all types of consumers.

Application of the CCI regime

Q 4: Do you have any comments on the scope of products included in the CCI regime?
A broad range of products ensures comprehensive consumer protection. The Panel understands that certain products are not currently included in this consultation as they fall outside the legislation. The Panel therefore believes that providing some clarity on exclusions such as which pension products, deposits and insurance products are excluded could be beneficial for consumers to understand what exactly falls outside the regime and why.

Q 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?
Clear and consistent definitions and examples of included and excluded products would help consumers quickly identify if a product is covered.

Q 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 Panel disagrees with the proposal to allow optionality for MOPs providers to provide consumers with a generic document covering the entire product. The Panel believes that retail investors should have the option to see individual documents for each of the underlying investment products. Additionally, they should be offered a summary product information pack that contains core information in an aggregated format. Firms must ensure that costs, risks and past performance are presented transparently for each option and are communicated and available at every step of a consumer's journey.

Q 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 Panel agrees that lowering the threshold from £100,000 to £50,000 would be beneficial for consumers as it would provide further protection.

Q 8: Do you agree with our proposed transitional provisions for moving to the CCI regime? If not, please explain why.
The Panel also supports the 18-month transition period proposed to adopt to the new regime.

Q 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.
The Panel agrees with the 12-month timeline proposed for closed-ended investment companies as it seems fair.

<u>Responsibility across the distribution chain</u>

Q 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 Panel agrees with the approach proposed and is supportive of the proposal that manufacturers are responsible for producing core information. The Panel believes that manufacturers should provide

accurate product information, and distributors should ensure it is tailored to consumer needs.

Should distributors opt to make their own summary to address consumer needs, the content of the product summary prepared by distributors should not distort, contradict or obscure any relevant information prepared by the manufacturers.

The Panel also agrees that collaboration between the two is essential to avoid conflicting messages and ensure that information provided to retail investors is accurate, clear, fair and not misleading. Consumer testing is essential to verify that this is the case.

Q 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 Panel agrees with the core information (including the costs and charges, risk, performance and redress) manufacturers would be required to prepare and provide to distributors. In particular, the Panel is supportive of the performance and carried interests to be presented in an easily understandable language.

The Panel would like to see that core information appears prominently and is not obfuscated. Additionally, including scenarios or examples of how products might perform under different conditions could be beneficial for consumers.

The Panel would also like the FCA to consider the potential to have maximum potential charges featured as part of the core information when crafting the rules.

Q 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.
The Panel agrees with the proposal for manufacturers to make their underlying product information available to distributors as this will ensure transparency and consistency for distributors that ultimately benefit consumers.

Q 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 Panel agrees with the proposal to require manufacturers to make underlying product information machine-readable. Moving away from PDFs will allow information to be presented interactively, making it easier for consumers to understand and also easier for supervisors to compare information more effectively.

Q 14: Do you agree that manufacturers should be responsible for producing a product summary? If not, please explain why.
The Panel agrees with the proposal to make manufacturers responsible for producing product summaries as they are the ones most knowledgeable about their products. Summaries shall be concise and consumer-friendly. The FCA should carry out testing to ensure consumers understand the product summaries being produced.

Q 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 Panel agrees with the proposed requirements for the product summary including the non-prescribed approach to the overall design or layout but recommends that minimum standards are set to ensure comparability and accessibility.

In particular, the Panel is supportive of the proposed framework to shift communication from rigid templates to a more flexible approach allowing firms to tailor information to consumer needs and more consumer-friendly summaries that are engaging and simple for consumers to understand. The Panel supports a more flexible and consumer-focused regime, provided that firms' judgement on the level of information does not obscure consumer outcomes The resulting information should be comprehensive and clear enough for consumers to make informed decisions. Pre-distribution testing and post-sale monitoring should be undertaken.

The Panel would like to re-iterate that it would be helpful for consumers to have the same picture across all platforms, enabling them to make comparisons, for example, a customer may have an ISA with one provider and their pension with another – looking at the same fund through different distributors may not be helpful for the consumer if they are not presented in a consistent manner.

Q 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 Panel agrees with the requirements for distributors to provide the product summary to potential investors as well as the timing of the delivery. The proposed approach will ensure that investors have access to comprehensive and accurate information about the product before making an investment decision.

A product summary helps investors understand the potential risks and rewards. Providing this information before the investment decision is made is crucial as it allows investors to review the details, seek clarifications and make well-informed decisions.

Q 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 Panel supports the proposal to provide consumers with a record for reference in a durable medium, allowing them to access information at any time after the sale. The Panel would also like to add that flexibility for digital formats (e.g., email) is necessary.

Q 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?
The Panel agrees with the proposal to require unauthorised firms to follow the same principles as this will ensure a baseline of consumer protection, even for products from unauthorised firms. As mentioned in paragraph 1.11, the FCA has rule-making power that may cover the activities of unauthorised firms, and the Panel agrees that this is generally advisable. However, the Panel would like to better understand how these rules are enforceable, as the firms are not authorised and therefore the same rules that apply to authorised firms don't apply to them.

Q 19: Do you have any other comments on what obligations manufacturers should have in the CCI regime?
Manufacturers and distributors should collaborate to ensure that any required information is provided promptly for the effective operation of the CCI regime.

Q 20: Do you have any other comments on what obligations distributors should have in the CCI regime?
Distributors should ensure their staff are well-trained to explain products clearly and identify consumers who may need extra support. Distributors should also consider providing FAQs or helplines for consumers needing additional clarity.

<u>Cost and Charges</u>

Q 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 proposed disclosures are comprehensive and allow consumers to understand the full scope of costs. The Panel agrees that it is important to

include both direct and indirect costs. Simplifying the presentation of these costs using examples or scenarios would make them more relatable. It is also important that costs and charges information are given provided early in the consumer journey.

The Panel also supports the introduction of clear and standarised methodology for calculating and presenting costs to address inconsistencies in the current regime as this will allow comparability of costs and will help consumers make effective decisions.

The Panel supports aggregating ongoing costs to simplify information for consumers and providing this information more prominently than any breakdown information. The Panel is also supportive of highlighting specific costs through the layering process. Although the Panel supports ongoing cost aggregation, it believes that without mandating detailed breakdowns, this could be misleading and create imbalanced information among investors. This inconsistency may cause investors to lose confidence in the investments presented by different platforms.

Moreover, the Panel believes that a clearer definition of what constitutes direct and indirect ongoing costs could be beneficial so that the information across products ends up being comparable.

The Panel understands that certain products such as closed ended investment companies can deduct costs from NAV or share price. The Panel understands that deducting costs from NAV, rather than from the share price, can result in a lower NAV, which in turn will lead to lower share price when shares are bought or sold. On the other hand not showing costs at the NAV level may result in the NAV appearing more favourable than it actually is, resulting in retail investors not being able to compare different investment options accurately which could lead to suboptimal investment choices.

Putting retail investors in the drivers' seat, the Panel believes that deducting costs from NAV can enhance transparency and provide a more accurate reflection of the investment. It can also allow retail investors to compare investment products regardless of their structure (open-ended / closed-ended).

The Panel does not agree with the alternative options currently discussed to disclose expenses at the company audited accounts as retail investors are less likely to read annual reports to fully understand the true value of their investments.

The Panel also believes that retail investors are less familiar with fund structures and therefore are likely to be more interested in understanding the true value of the investments after all expenses have been accounted allowing them to make more informed decisions.

The Panel supports the FCA’s proposal to exclude investment companies’ costs incurred in the maintenance of commercial operation of real assets as these costs are more inherent costs of the underlying assets rather than costs of the investments. The Panel also supports the need to disclose gearing as a risk factor rather than an ongoing cost.

The Panel supports the proposal to present performance fees (as a percentage and pound figured over a 12-month period) and carried interest separate from the other costs including the proposal of a narrative and example. The Panel is also supportive of providing supplementary information of costs of different periods of time for some products and where circumstances require to do so.

The FCA should undertake testing to validate the effectiveness of these proposals.

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

The Panel believes that all costs should be disclosed to investors for investors to be able to make informed discussions. However, the Panel agrees that information disclosed should avoid overwhelming consumers with technical details, and plain language and visual aids should be used.

In particular, the Panel believes that transaction costs should be disclosed as they affect the return on investment in the same way that management fees reduce the gross return of the investments.

The Panel believes that although transaction costs are post-ante information, it is important information that should be disclosed upfront to investors alongside all other relevant costs so that investors can make informed decisions for their investments.

As previously mentioned, the Panel continues to believe that the FCA should carry out consumer testing to validate the proposals they are putting forward.

Q 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.

The Panel agrees that adopting the PRIIPs methodology as this is a reasonable starting point, as it is standardised. The Panel believes the methodology should be reviewed to ensure it accounts for diverse product types and provides accurate, consumer-friendly insights.

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

The Panel agrees that pulling through costs ensures that consumers understand the cumulative effect of costs on their underlying investments and helps consumers compare different investment options more accurately by considering these costs. The latter is particularly important for multimanager structures where the underlying investments consist of multiple closed-end funds. The Panel believes that pulling through costs should be accompanied by clear explanations as to the type of costs that have been pulled through.

Q 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 Panel believes that product specific cost disclosure is essential for consumer understanding as it helps clarify how costs differ between products with similar objectives but different management style, such as active vs. passive funds.

Q 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.

The Panel advocates that costs and charges should offer value for money and be transparent. The Panel agrees with the proposal for the presentation of costs and charges and suggests that providers use interactive tools such as sliders to show the impact of cost over time. The latter will help increase consumer understanding and engagement.

Consumer testing should be undertaken by the FCA to confirm that consumer understanding and engagement is increasing.

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

The Panel has no specific comments on the proposed changes to MiFID II besides that the MiFID II disclosures shall remain relevant and simple to understand for retail investors.

Risk and Rewards

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

The Panel recommends that consumer disclosures be designed to enable consumers to make informed decisions and easily compare the risks and benefits of different options, including across product types and overseas funds marketed to UK retail investors.

The Panel supports a standardised horizontal risk score for CCIs to help consumers assess and compare product risks. It's crucial that these scores are clearly explained for retail investors.

The Panel believes that effectively addressing this issue can contribute to building consumer trust and confidence, which may lead to increased consumer participation in investments.

The Panel also believes that consumers would benefit from having additional information illustrating how a particular investment in the same product five years ago would have varied between X and Y. The Panel believes that this knowledge would help consumers better assess the potential risks and returns of their investments, enabling them to make more informed and confident decisions.

Q 29: Do you agree with our proposals for narrative risk and reward requirements? If not, please explain why.
The Panel agrees with the proposal to provide narratives on risk and rewards, as this will further enhance the understanding of retail investors. The Panel also supports the proposal to combine the description of risk and reward to give consumers a more rounded view of the product. The Panel is supportive of the use of interactive disclosures using hover-over buttons, hyperlinks, or pop-ups, as this could help improve consumer understanding of terminologies regarding risk and rewards.

Q 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 Panel is also supportive of a risk score methodology that is being proposed that is aligned with UCITS Synthetic Risk and Reward Indicator. In particular, the Panel agrees with the approach to use standard deviation of volatility of a product's historical performance as the starting basis for the risk score.

Although standard deviation is a good indicator it has its limitations as we know, as it assumes that returns follow a normal distribution which may not always be the case. Although this method might not be perfect it might be simpler for retail investors to understand. Retail investors shall be reminded that products may perform very differently in the future in terms of volatility but also in terms of returns. Consumer testing is essential to verify that this is the case.

Q 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.
The Panel believes that a broader scale could make it easier for consumers to understand risk levels in more granular fashion across a wider range of products, empowering them to make effective and timely decisions. Although the Panel believes that sufficient research is already available on Google Scholar for the FCA to tap into regarding the effective range of scale, we continue to encourage the FCA to test this proposal with consumers to ensure that a broader scale without a middle point does not negatively impact consumer understanding. The Panel believes that consumer testing should be conducted both before and after the launch of the regime. During the consultation period, the FCA should also consider engaging the industry in a sandbox as well, to test the standardised scoring system with them.

The Panel also supports the idea that the risk scale should be sufficiently differentiated between risk profiles and that risk calculations should be standardised so that manufacturers correctly allocate risk levels for investments, enabling consumers to better match their investment choices to their risk tolerance and appetite. The Panel would also like to see investments represented across all ranges of the scale, without favouring any specific risk level.

The Panel believes that more widespread use of consumer testing by the FCA and firms is essential to ensure that risk scores, scales, disclosures, and the method of disclosure (such as the use of cost layering discussed above) are effective in helping consumers compare options and understand risks and benefits.

Q 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.
The Panel agrees that firms should be able to amend the risk class of a product to reflect its true risk, but they must document and justify such amendments transparently. The Panel also believes that although firms should be able to increase the risk class for a product, firms should be unable to decrease it. The Panel believes that any amendments should be communicated to the FCA first.

Q 33: Do you agree with the proposals for products within the high-risk category? If not, please explain why.
The Panel agrees that products within the high-risk category must have clear and prominent warnings for consumers to fully understand the potential for loss.

Q 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.
Since structured products have varying risk levels, a tailored risk assessment is essential. These assessments should include a clear explanation of the risk score methodology used.

<u>Past Performance</u>

Q 35: Do you agree with our proposals to require showing past performance? If not, please explain why.
The Panel agrees that past performance information should be disclosed to consumers. As consumers might view past performance as a future indicator, the Panel recommends that the FCA ensures firms explain the limitations and why consumers should not rely on it. The Panel is also supportive of the accompanying of information and warnings presented on section 3.4 of the Proposed Amendments to the Product Disclosure Sourcebook on the consultation paper.

Q 36: Do you agree with our proposed requirements for a line graph for products that have past performance? If not, please explain why.
The Panel agrees that line graphs are intuitive and help visualise trends. Interactive tools such as the ability to hover-over data points showing actual numbers could enhance further consumer understanding.

Q 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 Panel agrees that 10 calendar years provides a robust historical view. For newer products, the Panel supports the proposal that firms should explain why shorter data is provided.

<u>Other required information</u>

Q 38: Do you agree with our proposed requirements for the inclusion of benchmarks in the line graph? If not, please explain why.
Including benchmarks in a line graph alongside an explanation of the chosen benchmark can help consumers contextualise performance. Additionally, requiring manufacturers to justify their benchmark selections can provide consumers with better insight into how product performance is measured. When consumers understand the benchmarks and the rationale behind them, they can make more informed decisions based on their specific needs and priorities.

However, providing overly detailed explanations of benchmarks could add complexity and overwhelm consumers, especially if the information is too technical or lengthy.

Holding manufacturers accountable for their chosen benchmarks is important. However, allowing them to select their own benchmarks could lead to potential issues, such as:

- Companies may choose benchmarks that position their products more favourably, potentially misleading consumers about the true performance and quality of the product, resulting in poor purchasing decisions.
- Without standardised or third-party-verified benchmarks, there is little accountability for companies' claims, increasing the risk of exaggerated or misleading performance metrics.
- There is a risk that companies could manipulate or cherry-pick data to support their chosen benchmarks, further distorting the reality of the product's performance.
- The FCA should consider testing to ensure the manufacturers are choosing appropriate benchmarks.

Q 39: Do you agree with our proposals for required basic information that must be disclosed? If not, please explain why.
The proposed basic information is comprehensive. However, including a FAQ section would address common consumer questions.

Q 40: Is there any other basic information you think should be communicated to consumers?
Information about the product's tax implications and any potential penalties for early withdrawal should also be included.

<u>Cost benefit Analysis</u>

Q 41: Do you agree with our Cost Benefit Analysis? If not, please explain why.
The analysis discussion itself appears thorough and balanced. However, the analytical assessment is quite weak.

A reader is left with more questions than answers upon reviewing Table 3 in paragraph 86 of Annex 2: only 1 out of 5 of the identified consumer benefits is quantified (reduction in direct complaints, at a modest £0.3m), increase in costs to the consumer (search costs) is also unquantified. The Panel notes current requirements around cost benefit analysis, and that the FCA indicates it will undertake research/testing with a view to quantifying some benefits, but the Panel believes that it is critically important that this should be carried out at the outset, during the earliest stages and throughout policy development, to provide more certainty and confidence to indicate that the proposals arrived at and as set out in the Consultation Paper will be net beneficlal.

We would encourage the FCA policy teams to seek the advice of the FCA's CBA Panel at the earliest stages when preparing any consultation which has a material impact to consumers and / or the markets, regardless of current thresholds. As noted in paragraph 1.1, these proposals have the potential to impact 23% of the adult UK population, which is certainly noteworthy, yet they fall outside current thresholds. We also believe that financial thresholds are likely to inappropriately favour the CBA Panel's involvement when there is a material impact to firms, with the risk of lesser emphasis on consumer impacts. On this basis, we hold a strong view that current thresholds should be revisited in order to ensure that there is a truly balanced approach to the FCA's cost benefit analyses.

We also believe that, if metrics do not currently exist to quantify costs and benefits, consumer feedback should be included during the implementation phase to validate the projected benefits and associated costs.