FCA Practitioner Panel

Retail Investment & Distribution Policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN
By email

2 March 2023

Dear Sir/Madam,

DP22/6: Future Disclosure Framework

The Panel welcomes the range of ideas set out in the discussion paper and encourages the FCA to build on proposals which support the development of a UK retail distribution framework which is outcomes led.

At a broad level, noting the related consultations on Asset Management and Sustainability Disclosure Requirements and investment labels, it is important proposed changes are fully aligned, and that sustainability requirements form part of the new disclosure framework rather than a separate set of rules. There is a real opportunity to entrust firms, in the context of their obligations under the Consumer Duty, with the flexibility to explore how best to provide consumers with the information they need to make informed decisions. This flexibility could be enhanced further if a holistic approach is taken to the review of advice and guidance.

Successful implementation of the rules under the new regime will also require continued close working between the FCA and industry to clearly set out expectations and provide feedback on good and bad practice. Key to this will be building a common understanding between manufacturers, distributors and the FCA of what is key data, being clear on any format requirements, and engaging with industry to reach consensus on how and when data should be shared. A joint understanding will be key to driving better outcomes under the Consumer Duty.

With regard to content and the balance between prescription and flexibility, our view is that the core information required to make an effective investment decision relates to performance and risk. It is of key importance that consumers are able to look at the performance of an investment compared to similar funds as well as compare it to the performance of cash. Allowing flexibility as to how this information is presented would enable firms to tailor their approach taking into account appropriate context including whether the investment forms part of a blended portfolio, investor knowledge, risk appetite and other relevant factors. It may be appropriate to present information on previous performance over the last year, the last 5 years or more depending on the product type and the client's investment portfolio. It might also be helpful to include projections of future performance and comparisons of how a fund could perform in different markets, and/or more detailed information on cost disclosure and diversification within portfolios.

On risk, there is challenge in identifying the right balance in what information is presented to the consumer and when. Providing a numeric risk score is in our view less helpful than considering risk in a more holistic way and allowing firms the flexibility to explore with clients what will be useful for them to understand their risk exposure. For example, in many cases it may be more meaningful to provide risk warnings at a portfolio level rather than individual funds. Risk warnings also need to be right sized for the type of investment. For example, a diversified multi-asset fund that has the opportunity to invest in smaller companies, emerging markets and use derivates for efficient portfolio management could have a lengthy set of accompanying risk warnings yet would be a very suitable starter investment for many people new to investing.

We would support the overall concept of layering to facilitate getting the right information to consumers at the right time, focussing on providing key information upfront and enabling consumers to access to more granular information as part of the consumer journey. In this context we would be supportive of the proposal to present overall cost clearly as a single figure (excluding transaction costs), with more granular information layered in disclosure.

Giving firms the freedom to innovate and explore the use of alternative mediums including graphics, dashboards and interactive displays presents an enormous opportunity to improve consumer understanding. Interactivity can also usefully be applied as part of an ongoing display or in specified disclosures as part of the client journey. A reduction in the use of jargon and technical terms would likely be a natural consequence of increased flexibility as, in addition to adherence to the Consumer Duty, firms have a commercial incentive to communicate clearly and effectively with consumers at the earliest stage.

On the question of respective responsibilities for producing retail disclosure, our broad observation is that there may be benefit in re-examining the relationship between manufacturers and distributors to make clear requirements around data and close any potential loopholes. This might also include consideration of the role of third-party providers compiling summary fact sheets, which can distort information by aggregating investments into an 'Other' category.

With regards to plans to conduct consumer testing as part of pre-consultation work, we encourage that this consumer input is considered in context, and also takes into account firm expertise on what information the consumer needs to be provided with to make an informed decision.

We would be happy to discuss these points further if required.

Yours faithfully,

[signed]

Matt Hammerstein
Deputy Chair, FCA Practitioner Panel