Fund objectives working group – third meeting

Improving reporting against fund objectives

The first two meetings of the group covered issues around the meaning and usefulness of fund objectives, and then the comparability of objectives. In the third session we will move on to considering ongoing reporting against fund objectives and investment policies (OIPs), rather than the pre-sale disclosure of what the OIP are.

The regulatory requirements around reporting on the OIP are included in the rules requiring half-yearly and annual reports for an authorised fund. These regulatory requirements are couched in general terms, but it appears that these are generally interpreted as giving the manager the opportunity to explain the activities of the fund in the context of the OIP and the investment strategy. The rules require a fund manager to prepare a report and to send it to unitholders on request, but there is no regulatory requirement to publish it, although in practice many firms publish annual reports on their website. There is also no requirement to produce commentary in a factsheet at any level of frequency, although firms often provide such commentary.

This session will consider the issue from both the supply and demand side. In other words we will consider the effectiveness of reporting and what information might be provided, as well as what information, and what delivery channel, might assist investors in understanding and assessing their funds better.

How can reporting enable an investor to assess whether their fund is meeting its objectives?

Background

The rules on reporting for authorised funds are contained within COLL. They set out the obligation to report in a half-yearly and annual report on the activities of the fund. COLL4.5.9R contains the matters which must be included in an annual and half-yearly report of an authorised fund. This includes:

"(5) the investment objectives of the authorised fund;

(6) the policy and strategy pursued for achieving those objectives;

(7) a review of the investment activities during the period to which the report relates."

In 2016, the FCA removed the requirement for firms to produce a short report as a summary of the annual and half-yearly report, following its review of disclosure requirements as part of the Smarter Consumer Communications initiative. In the Policy Statement[1], we noted that "Even though we are removing the requirement for firms to produce short reports, it is essential that all firms consider the information needs of consumers." This is based on Principle 7:

"Communications with clients

A firm *must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading."*

[1] PS16/23

Questions for discussion

Reporting of performance against objectives

How do funds currently report against their objectives?

How far do current reporting practices explain why (or why not) a fund has achieved its objectives?

Does the commentary provided by fund managers explain how the fund has performed against its objectives (as opposed to how it has performed against something else)?

How does reporting in factsheets interact with the more formal regulatory requirement to report on a half-yearly basis?

Some factsheets contain commentary while others do not. Are there any barriers to firms communicating clearly with investors via factsheets?

Reporting enables accountability, but many respondents to our consultations have commented that the regulator should avoid encouraging excessive short-termism. What considerations should a manager take into account when assessing how frequently to report on whether a fund is meeting its objectives?

Engagement with existing investors

Report and accounts are currently only available to investors on request. Should these be required to be published? If not, should there, for example, be a requirement that certain information within them be published?

Apart from regulatory communications and marketing material, how do firms communicate directly with their existing retail investors in other ways (for example via a letter, email update or video commentary)?

Are there any lessons that could be learnt from these communications?

Is there any evidence that such communications engage investors?

Could this type of communication potentially be used to help investors understand how a fund is performing against its objectives?

Assessment of performance against objectives

How can an investor assess whether or not a fund is performing against its objectives? What information would help consumers understand better how a fund is meeting its objectives?

Could this be set out in a more prescriptive way? Would a more specific obligation to consider, as part of the review of investment activities, how the fund has met its objectives help investors to understand this? Would it be of benefit to clarify that the review of investment activities should not comment on the performance of the fund against anything other than its stated objectives?

How should an investor evaluate how a fund is meeting non-financial objectives?

Are there any other elements (e.g. risk taken) which an investor should consider when assessing performance against objectives? How can these be presented in a clear but comprehensive way?