

FUND OBJECTIVES WORKING GROUP**31 October 2017****1. Summary and recap of first meeting**

- 1.1. The group agreed the minutes of the first meeting.
- 1.2. In response to comments made at the first meeting, the FCA noted that the Asset Management Market Study had found that it is difficult even for engaged investors to know what to expect from their fund, and that the group is considering how objectives can be made clearer. The FCA noted that existing disclosures of objectives and investment policies often did not seem to explain what a fund will actually be doing. The FCA noted that the KIID is intended to be used by retail investors.

2. Comparability of fund objectives

- 2.1. There was discussion around the differences between the different disclosure materials, principally the prospectus, the factsheet and the KIID, and the ability of investors to compare products based on what they read in the different materials.
- 2.2. It was noted that, with exception of being clear, fair and not misleading, the factsheet is not a regulated document and therefore it is more flexible and easier to amend. It was also noted that the factsheet contains some useful information that firms cannot put in the KIID. In particular some members observed that the information in the factsheet, because it contains up-to-date information and commentary, was more engaging than the more static information in the KIID. It was noted that performance data and market commentary was what most investors wanted to read.
- 2.3. There was discussion on the merits of making factsheets more regulated. Some felt that this would be a route to greater comparability, but there was also concern that turning factsheets into regulated disclosures would make them less engaging for investors. Others observed that while investors may want the material in the factsheet, this may not be helping them to make good investment decisions, and they should focus more on the costs they are paying and the manager's value proposition.
- 2.4. It was noted that one of the main purposes of the KIID was to enable investors to compare funds more easily and that the same principle applies to the PRIIPs KID.
- 2.5. Members noted that prospectuses and KIIDs are regulated documents and in their view this leads firms to apply a more legalistic approach when drafting them. Some members noted that the headings in the KIID are restrictive and often mirror headings in prospectus. It was argued that this means that firms usually align the wording in the KIID and the prospectus. This can result in the KIID being written in language that mirrors the legal text of the prospectus rather than in more plain language. One member noted that other European regulators expect the wording in the prospectus and the KIID to match. Some members suggested that firms should not simply copy the prospectus objectives into the

KIID. Members highlighted that, by contrast, factsheets do not contain prescribed headings and fund managers can communicate fund information in the way they wish.

- 2.6. One member argued that although English-language KIIDs sometimes have blank space, this was the result of it being easier to express material concisely in English, compared to other European languages.
- 2.7. A member noted that firms should be looking at documents with their purpose in mind and questioning themselves whether they are describing their product in a way that the target audience can easily understand with a view to enabling a member of that audience to assess whether a product is suitable for them.
- 2.8. Members discussed other aspects of comparability. Some raised points around the description of "how" a fund will achieve its objectives. They suggested that this should include the investment approach / investment strategy. The point was made that the investment approach is more important to investors than the list of investments the fund manager can invest in. Others commented on the lack of comparability around descriptions of 'how' a fund is managed, and that this information was dispersed among different documents.
- 2.9. Members discussed the potential impact of PRIIPs. One member noted that PRIIPs will introduce headings in the form of questions which may change how firms think of communicating information to investors. Others commented that, in their view, PRIIPS may not improve comparability.

3. Would a greater structure or taxonomy assist comparison?

- 3.1. There was discussion around the importance of a structure or taxonomy to enable comparisons. Members discussed whether some form of glossary of standard terms would help consumers understand which products were comparable with which others.
- 3.2. There was particular discussion around labels such as 'ethical' or 'sustainable.' It was argued that when a fund falls within the environmental, social or governance area there should be an underlying mechanism to ensure that these are meaningful goals that can be delivered. The requirements of the PRIIPs Regulation in this area were noted.
- 3.3. Concerns were raised about setting out an overly granular glossary which defines every term. Others observed that a simple expression like 'long-term' may have different meanings between different product providers and between product providers and investors. Some members felt that having common terminology and a taxonomy of words would assist investors with understanding and comparing different funds, by meaning that they could ensure they were comparing like with like. Other members suggested that a standard categorisation (for example a table where fund managers could highlight aspects appropriate to their fund e.g. income / growth, constrained / unconstrained or active / passive) would benefit investors.
- 3.4. The point was raised as to whether investors would benefit from a review of the IA sectors with a view to making them better for categorising products.
- 3.5. Some members commented that work around target markets for MiFID II had established a taxonomy for that purpose, and that this could potentially form the basis of a wider list of terms.

4. Thanks and close from the Chair