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FCA ASSET MANAGEMENT FINAL REPORT: IT'S JUST THE BEGINNING

The Financial Conduct Authority's (FCA) final report on the asset management industry was met last week with a mixed reaction from active managers, but somewhat more concern from the investment consultant community.

While the final study did not deviate too far from the regulator's interim report released in November 2016, its stance is largely perceived to have been softened and may indicate the regulator believes the £7 trillion industry remains capable of putting its own house in order. The funds industry is however still facing some major changes, with investment consultants set to undergo a full-blown competition probe after the FCA conceded its proposed measures did not go far enough.

Some experts welcomed the report and its goals, whilst others criticised the City regulator for not going far enough. With this mixed reaction in mind, JPES Partners has undertaken a detailed analysis of the core findings of the report and how the media has responded, plus an insight into how the press expects the story to play out.

Key Takeaways:

- The FCA said it would introduce a responsibility for asset managers to consider the value for money they deliver to investors under the 'Senior Managers and Certification Regime' to be enforced in 2018.
- Introduce an all-in fee for retail investors (and will continue to support the inclusion of estimated trading costs).
- Fund boards will be required to appoint two independent directors. Further plans will also be put in place requiring boards to assess whether value for money is being provided to investors.
- Asset managers will have to make it easier for retail investors to switch to cheaper share classes.
- Disclosure of costs and charges to institutional investors will be standardised.
- The FCA has requested new powers from the government to oversee investment consultants, due to rising concerns that the advice given by consultants is highly unregulated and has left large investors struggling to recognise if they are truly getting value for money.
- The FCA will also consider referring investment consultants to the Competition and Markets Authority (CMA) who have the power to implement a range of policies to improve competition. A final decision on this will be announced in September.
- Remove barriers to pension scheme consolidation and pooling, allowing for pooled schemes to further negotiate lower fees with investment managers.
- The FCA will investigate whether platforms are enabling retail investors to access products that offer value for money, and what can be done to improve competition between platforms to ensure investors are getting the best outcome for their investments.

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About JPES Partners

JPES Partners is the only investment management focused marketing and communications consultancy in the UK.

We help our clients achieve their business objectives through a combination of strategic marketing and communications disciplines. Our team of consultants draws on a range of professional backgrounds including investment management, journalism, marketing, public relations and law.

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The industry response

"We have made a good start but clearly there is still work to be done. Taken in the round, we believe this comprehensive package of reforms will ultimately benefit investors and the long-term health of the sector"

Christopher Woolard, executive board member and director of strategy, the Financial Conduct Authority

"This looks like a great example of a regulator doing what is necessary despite what must have been mountains of pressure and resistance from an industry that would have lobbied very hard to maintain the status quo as much as possible"

Andy Agathangelou, founding chair, the Transparency Taskforce

"The UK regulator is still allowing the industry to rip off customers by charging excessive fees, which has a huge detrimental impact on the returns investors are getting on their hard-earned money"

Gina Miller, co-founder of SCM Direct

The media response

In the immediate aftermath of the regulator's review being announced in November 2016 the responses from the sector were measured, if not muted, with few going to any lengths to speak directly on it. This has not been the case this time around, with different parts of the sector opting to respond publicly to the report.

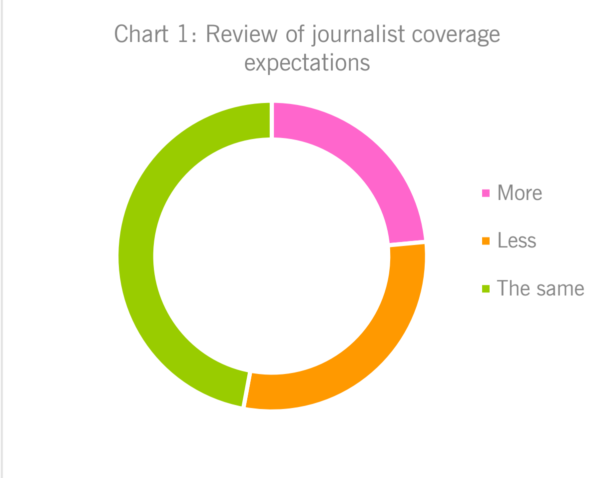
Given that fees have consistently dominated the asset management news agenda for some time, it is unsurprising our research shows that at this stage, transparency, fees and value for money are the three topics that have been reported on the most.

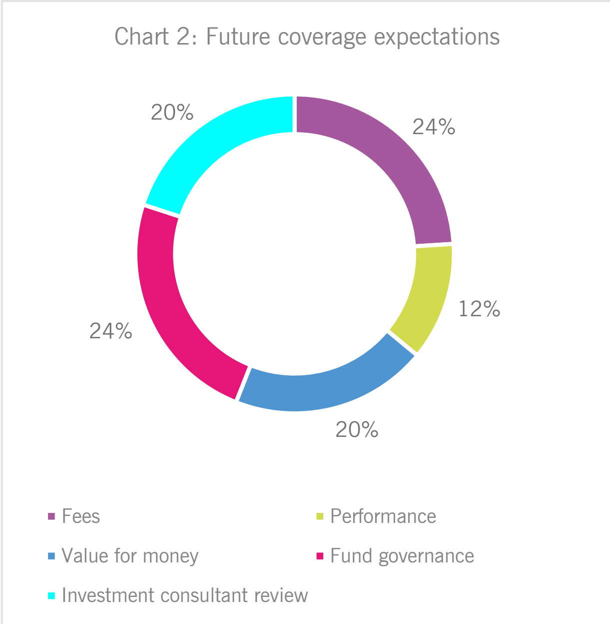
As part of our analysis, we surveyed a sample of UK national and trade publications to see what their take is on how the report will shape future coverage of the industry (Chart 1):

- Almost half of respondents envisage their coverage of the review and its implications for the industry will stay the same for the foreseeable future
- Journalists from the national media are less likely to cover the review over the long term
- Trade journalists expect to continue writing about the review and its effects, with many likely to increase the amount of coverage

In terms of the topics journalists expect will dominate headlines (Chart 2), there seems to be fairly equal interest around fees and value for money. Governance and the investment consultant competition review will also be a big focus, particularly for the asset management focused press.

Interestingly, only 12% of journalists surveyed said they would be likely to focus on performance. The consensus seems to be that as other issues such as changes in governance become more prevalent, performance will fall further down the press agenda.





Implications for the investment industry

Undoubtedly the FCA report comes at a crucial point for the industry with many fund managers attempting to navigate the potential fall out of Britain leaving the EU. Although the timing may not have been ideal, asset managers and consultants will need to respond and proactively communicate their actions.

The policies proposed by the regulator are still a work in progress – changes in the regulatory landscape (Mifid II, fund passporting, Priips etc.) are likely to affect the industry further but now is the time for the industry to stand up and help shape the way the world sees the asset management community.

This places greater pressure on investment managers and consultants to rebuild the trust that appears to have been lost with investors. Repairing this trust will be a long-term task and will require the development of an open narrative with stakeholders about the steps being taken to implement the necessary changes. Communication will be key and the businesses that will succeed will be those who take advantage of the opportunity to help rebuild this trust.

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