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Financial Conduct Authority
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Dear Becky,

Financial Conduct Authority consultation on the Asset Management Market Study Interim Report

Which? welcomes the opportunity to respond to the Financial Conduct Authority's Asset Management Market Study Interim Report.

We are particularly pleased that the FCA is looking closely at the structure and transparency of fees and charges. These two areas are inevitably linked: a change to fee structures will impact the information consumers need, and a change to the fee information consumers receive might affect how firms structure their fees.

Effective communication of fees and charges – however structured – that apply to a consumer's investments is an essential factor for a competitive market. The FCA's interim report identifies symptoms of the market that do not seem consistent with effective competition, including the clustering of fund charges and the lack of economies of scale for investors in large funds and our research has identified several types of cost that it is difficult for consumers to compare.

Disclosure remedies are the minimum needed in this market to make effective competition possible. However, any such remedy must be introduced only after testing - not just based on the views of consultation respondents or other engagement. Any consumer testing should cover the format and timing of the disclosure as well as the time period the disclosure covers. Consumers may, for example, see little difference between a 0.6% and a 0.7% annual charge on assets under management, but over time this could significantly erode their fund value. Projections of the long-term effects of charges on investment - such as 'after 10 years you will have paid £X in charges' or 'after 10 years your investment will be Y% smaller than it would have been without fees' - may encourage greater shopping around and thereby increase competition - and pressure fund houses to pass economies of scale on to their investors.

The value of consumer testing was recently shown by the FCA in its work on an annuity comparison remedy, which found that showing potential gains over a lifetime from shopping around for annuities was less effective than showing the potential annual gain. Without that testing, a less effective remedy may have been introduced, and the FCA's approach in that instance was very welcome.



Our research from last year, which we attach alongside this submission, shows the impact a seemingly small difference in percentage charges can have on fund value over time, which indicates the scale of benefits an effective remedy could have for consumers.

Asset management has always been an important market for many consumers, but as more consumers rely on investment performance in the accumulation and increasingly the decumulation stages of the pensions market, it is vital that the FCA takes this opportunity to introduce tested, effective remedies to empower consumers.

Yours sincerely,

Caroline Normand
Director of Policy