CFA Society United Kingdom

21 September, 2018

Kate Blatchford-Hick
Competition Division
Financial Conduct Authority
12 Endeavour Square London
E20 1JN

Dear Ms. Blatchford-Hick,

CFA UK response to the FCA regarding MS17/1.2: Investment Platforms Market Study

The CFA Society of the UK (CFA UK) is delighted to have the opportunity to share its views on the FCA's Investment Platforms Market Study. CFA UK welcomes opportunities to scrutinise initiatives that aim to raise professional standards in the investment industry and improve clients' abilities to make informed choices about their investments. CFA UK notes the rapid growth enjoyed by the investment platform sector in the UK in recent years, reflecting its popularity with consumers, and believes this is likely to continue.

About CFA UK & the CFA Institute

CFA UK: serves nearly 12,000 leading members of the UK investment profession.

- Its mission is to build a better investment profession and to do this through the promotion of the highest standards of ethics, education and professional excellence in order to serve society's best interests.
- Founded in 1955, CFA UK is one of the largest member societies of CFA Institute (see below) and provides continuing education, advocacy, information and career support on behalf of its members.
- Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute: is the global association for investment professionals.

- Its mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.
- It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

- CFA Institute has more than 155,000 members in 159 countries, of which more than 148,000 hold the Chartered Financial Analyst (CFA) designation.

EXECUTIVE SUMMARY

- We strongly support giving clients tools that enable them to make better educated decisions, such as ways to compare charges between platforms and funds, information about the corrosive effect of inflation and charges, and reminders to act if their cash balance increases beyond a certain threshold or if they are paying for advised services that they are not using.
- However, we believe that both D2C and advised clients should be permitted to make their own choices (assuming full information), for example, about whether to hold large cash balances or to remain with an advised service when they are not taking advantage of the advice.
- We are concerned that the Investment Platforms Market Study stresses costs and charges rather than all of the components that we consider when assessing value for money, which includes risk, performance, investment returns, quality, fair pricing, and the benefits of an advised service if the client is taking advantage of the advice.
- We also believe that investment platforms, especially D2C investment platforms, are a good place to encourage consumers to consider investment as a long-term proposition and to consider the corrosive effects of inflation on their investments. Generally, we think that platforms could do a much better job at illustrating and thereby emphasising the long-term historic performance of client's own aggregate portfolio and indicate the possible effects of both inflation and fees on the future value of that portfolio.
- We believe that investors should be made fully aware of which parts of their cash or investment are covered by FSCS protection and how they can increase the amount covered by the FSCS by splitting their cash among different banks.
- We believe that clients with assets subject to foreign withholding tax should be aware of applicable double tax treaties and whether the platform or broker takes care of getting the reduced foreign withholding tax or whether the investor needs to reclaim the withholding tax.
- We believe that one of the best ways to increase competition is to make switching between platforms easier, with mandated timescales and streamlined switching between share or ETF classes.
- We urge caution in applying additional requirements and costs that will disadvantage smaller players and entrepreneurs, especially before the effectiveness and side effects of recently implemented requirements such as MiFID II are known.

THEME 1: Measures to help consumers on D2C platforms who find it difficult to shop around and choose platforms on the basis of price

Q1: Are you aware of specific innovations that display costs and charging information in a way which facilitates consumers making informed investment decisions?

CFA UK convened a working group from its membership to author this response to MS17/1.2. Comparison tools that this working group were aware of include the comparison tools on https://comparetheplatform.com/platform-calculator/, the interactive tool on http://monevator.com/compare-the-brokers/, the broker comparison table on

http://monevator.com/compare-uk-cheapest-online-brokers/, the Lang Cat heatmaps on www.theaic.co.uk/aic/platform-costs/costs-at-a-glance, and the DIY investing ISA charges on
www.thisismoney.co.uk/money/diyinvesting/article-1718291/Pick-best-cheapest-investment-Isa-platform.html.

We highlight below examples of steps taken by various providers which we feel, if standardised across the investment industry, can educate consumers over time and help them make more informed investment decisions:

1. For costs levied at the platform level, CFA UK believe the following measures, especially when implemented together, should raise overall customer awareness of fees and charges and help them make more informed decisions:

    b. For actual and potential clients, platforms should provide existing clients with an online breakdown of the platform's charging policy and ideally the FCA might both standardise the titling and stipulate where platforms should locate this on their web-sites; and
    c. For actual clients, platforms should provide regular statements summarising the total charges incurred by a client, broken down by type mirroring their charging policy (such as custody, wrapper, dealing costs etc.) for pre-specified time periods (such as quarterly or the LTM). This should be coupled with a warning statement to draw attention to the fees charged at the underlying funds level if these cannot be shown. This should facilitate like-for-like comparisons.
    d. For potential clients considering switching to another platform, the addition of a pricing tool with input fields for these different fee types would allow customers to carry-out scenarios more aligned with their own individual circumstances.
    e. In terms of payments, CFA UK favour fees being taken by direct debit as this also raises greater awareness than a simple deduction from users' accounts' cash balances or share redemptions as well as potentially preserving the tax status of wrapper funds.

2. For costs levied at the fund and / or share level, CFA UK believe:

    a. the provision of a sorting mechanism to show the type of underlying fees such as Entry, OCF, All-in fee under pre-defined exit assumptions may also help customers appreciate the impact on fees from a fund manager's trading.
    b. In displaying daily price information, by comparing live price changes to historical values other than just that of the prior day may also discourage short-term trading. To facilitate trading decisions, for example, investors could be offered functionality to see daily, monthly, or yearly live price changes and, for individual securities they already own, their own corresponding book values/prices.

Some Asian platforms offer investment chatrooms which we believe can also improve education and raise transparency. However, there are caveats in offering this type of service depending on the origin of the chatroom provider. If, for instance, the platform provides the chatroom itself, then the firm must ensure that individual chat-room staff are sufficiently trained and conversant with the platform and the products available on it to avoid giving out misinformation.

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Q2: Bearing in mind the existing costs and charges disclosure requirements found in, for example, COBS 2.2.1R and COBS 6.1.9R (for non-MiFID business) and COBS 2.2A.2R, 6.1ZA.11R and COBS 6.1ZA.12R (for MiFID business), do you think additional disclosure remedies are required to ensure that consumers are able to compare platform charges? If yes, what should those further requirements be and why do existing disclosure requirements not go far enough?

We break-down our answer to this question into two parts: MiFID business and non-MiFID business:

On MiFID business, we feel that existing rules permit grouping of too many costs rendering meaningful platform comparisons difficult. We also feel that they are complex and costly to implement. Therefore, we feel that further disclosure requirements should clarify existing MiFID rules without adding extra complexity, such as:

- Require the disclosure of each of the headline charges (MS17/1/2 Figure 5.2) and the basis of how they are charged (i.e. fixed, %, tiered)
- Standardise the disclosure format, labelling etc to facilitate easy comparison of platforms.

On non-MiFID business, we believe that most products are not suitable for the average retail investor and the cost of implementing further requirements could outweigh the benefits the additional safeguards could bring for sophisticated investors.

Q3: Are there any practical challenges, negative effects or limitations of innovations to enhance the comparability of charges and, if so, are there ways in which these could be overcome?

Challenges:
CFA UK believes that perhaps the most apparent practical challenge to enhance the comparability of charges is the range of investment products on offer across the different platforms in the industry. Another would be the use by some platforms of cross-subsidised pricing e.g. a platform fee might be rebated against transaction dealing fees in the period.

Negative Effects:
The one negative effect of greater transparency and comparability of charges would be that too much of a focus is spent on charges and not enough on other aspects of investing i.e. risk, returns and service levels.

Limitations of innovations:
As discussed above, the main limitations to enabling greater comparability of charges across platforms are the lack of standardisation in terms and language, the great variety of different investment products and the use of cross-subsidies in charging structures. We are also concerned about multiple new white label products that are minor variations on similar themes.

Ways to overcome:
CFA UK would make the following suggestions to enhance the comparability of charges on platforms:

- Introduce a standardised cost calculator on all platforms allowing a potential customer to compare what the aggregate platform charge might be for their

investment portfolio based on their typical asset holdings and dealing frequency/pattern
- FCA to issue guidance on how and where platforms should display charges on their web-sites and on the treatment of cross-subsidising fee structures, i.e. platform fee rebated through trading commissions. Additionally, FCA can provide a fee template for breaking out all the fees and provide specific definitions for each to enable consistent language, definitions, and ease of comparability
- Platforms can offer consumer education at key transaction points: before trade / after switch

Q4: Do you think that:

a. ***Third party intermediaries currently face barriers to placing competitive pressure on platforms?***
b. ***The role of the third party intermediaries should be enhanced in an effort to improve competitive pressures on platforms and, if so, how?***
c. ***A requirement on platforms to provide third party intermediaries with more data or open solutions is a good way to enhance their role in an effort to increase competitive pressures on platforms?***
d. ***There are more practical challenges or negative effects of enhancing the role of third party intermediaries through introducing a requirement on platforms to provide them with more data or open data solutions? If so, how could these be overcome?***

CFA UK is not in a position to respond to this question.

Q5: Are there any alternative ways to enhance the comparability of charges investors incur when investing through a platform?

In line with the answer we provide to question one, we believe making the distinction between platform charges and individual fund charges, as well as standardising reporting to investors, would enhance the comparability of charges incurred when investing through a platform.

We highlight below examples of measures that can be taken at the fund and platform levels respectively.

Standardising reporting at the fund level:
- Adopt consistent GIPS reporting standards
- Provide a search tool that allows investors to categorise and compare investment products in sets based on well-defined criteria such as risk level, asset class, region, income yield, benchmark, track record, tax profile, management fees, performance fees, other fees, etc.
- After bucketing into sets (e.g. Emerging Market Equities, European Credit etc), present comparisons based on Morningstar categories, OCF, exit fees, yield after fees, benchmark, etc.

Standardising reporting at the platform level:
- Present a break-down and aggregate view of indicative charges by defined criteria pertaining to a series of investor profiles, e.g. total pot size: £250k, trading frequency: £50k in 5 trades/quarter, asset types held: 50% individual equities; 25% equity funds; 25% bond funds.

- Provide a tool that allows customers to estimate their annual charges on a platform by inputting key defined criteria such as those above i.e. pot size, number and size of trades per year based on his/her input of portfolio holdings. Present an output of itemised and total charges to allow customers to identify how their costs change and to determine the key drivers of an increase / decrease in fees.

For platforms that offer investment in foreign investments where foreign withholding tax applies, we recomment that platforms be required to disclose whether double tax treaties entitle all UK investors and/or pension investors to a lower rate of foreign withholding tax and whether the platform will recoup the withheld tax on behalf of the client.

THEME 2: Strengthening the extent to which platforms drive competition between asset managers

Q6: Are you aware of specific innovations that display costs and charging information in a way which facilitates consumers making informed choices between investment funds?

Morningstar, FE Trustnet, etc. offer fund comparison tools. In addition, fund factsheets should be clearly displayed and easy to find. The factsheets should include historic returns net and gross of all fees and a total for all charges on the portfolio. Factsheets should be updated annually to state the fees paid by all share classes in issue, relevant differences between share classes (e.g. different fixed income or currency hedges) and rebates, if any, offered by the fund managers to specific share classes.

Q7: Do you think additional disclosure remedies are required to ensure that consumers are able to compare fund charges on a platform? If yes, what should those further requirements be and why do existing disclosure requirements not go far enough?

Yes, we think additional disclosure remedies are required to ensure that consumers are able to compare fund charges on a platform. We feel that existing disclosure requirements do not spell out a) the underlying fund features such as currency hedging and the use of leverage and/or b) the accessibility of the different share classes of a fund. We could consider inserting a table on the fund factsheet highlighting the available share classes for that fund.

For example:

XYZ FUND								
Available Share Class	D2C Platforms	Assessible Advised Platforms	via Institutional Clients	Available Currencies	Size of Leverage	Min. Inv. Size	Fees	Range of rebate available
A, A1, B			√	£	2X			
D, D1, D2		√	√	$ hedged	none			
E, F	√	√	√	€ unhedged	etc			
etc				etc				

We believe the FCA could consider providing guidelines on what features the minimum table parameters should include.

One way to ensure that consumers are able to compare fund charges is by quoting the all-in-one fee as now required under MIFID II disclosure requirements i.e. include transaction/dealing costs.

Ideally, however, platforms should group costs together in a way that is meaningful to retail investors, showing well-defined, visible criteria for fund comparisons possibly following a template set of definitions mandated by the FCA.

One problem is that on some platforms the platform fee is influenced in turn by the amount of the fund invested in funds. Investors should ideally be given the means to be shown the impact of the addition of a fund to an existing portfolio, i.e. a tool that shows the effect of adding *X* amount of fund *Y* to a portfolio on the costs and performance of the entire portfolio.

Where a fund manager gives a discount to a platform, CFA UK believes that discount should be clearly disclosed.

Q8: Are there any practical challenges, negative effects or limitations of innovations to enhance the comparability of fund charges on a platform, if so, are there ways in which these could be overcome?

Practical challenges include legacy operational systems and confusion from different regulatory requirements/definitions such as the issue with implicit transaction costs, where PRIIPs have to use arrival price while MiFID II allows spread-based methodologies.

Negative consequences include additional IT and regulatory costs that may disadvantage smaller firms and discourage entrepreneurship.

We are concerned that the FCA Investment Platforms Market Study focuses overly on costs and charges rather than on the total output (whether the investment returns generated meet the investor's objective, risk parameters and quality of service levels). These concerns for advised clients are addressed more fully in the CFA Institute's "Elements of an Individual Policy Statement for Individual Investors[1] and will be addressed again for both advised and D2C clients in the CFA's upcoming Value for Money Study[2].

Q9: What impact do the commercial arrangements we have identified have on fund managers' incentives, on consumers and on competition?

We are concerned that the commercial arrangements that the FCA has identified favour larger asset managers with large fund distribution networks. These asset managers can offer the biggest discounts and the best commercial arrangements, but they may not always offer the best products or the best value for money for the end investor. In the short to medium term they may lower costs for the consumer but in the long term they will decrease competition, discourage smaller players, entrepreneurs, and innovation, and reduce the range of products available to consumers.

THEME 3: Measures to help consumers who may be building large cash balances without knowing about interest, charges and potential lost investment returns

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[1] https://www.cfainstitute.org/en/advocacy/policy-positions/elements-of-an-investment-policy-statement-for-individual-investors

[2] CFA Value for Money Study, in press

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Q10: What are the reasons why D2C consumers have significantly higher cash balances than advised consumers?

The 8% cash on D2C platforms compared to 3.3% cash on adviser platforms did not strike us as necessarily unreasonably high. Reasons why D2C clients might at present hold cash include:

- Cash for expected expenditures or emergencies. If D2C clients, on average, have fewer assets than clients on adviser platforms, they will hold a higher percentage for expected expenditures or emergencies. Where the funds are in an ISA they might not want to remit the cash out until it is actually required to preserve the protection of the tax shelter.
- Cash from transferring in new funds or after selling investments/having investments redeem: The investor may not yet have decided on his or her next investment or waiting for a target price to be reached.
- The client may be unaware of the corrosive effects of inflation on their cash balances particularly in the current rate environment.
- The client may be either fearful or inattentive. Some of the cash may have built up from return of capital or special dividends which have not been reinvested due to lack of attention or concern at current market levels.
- The client may want to time the market i.e. buy in at lower levels once the market has fallen.
- Cash balances on advised platforms could be regarded as proportionately low and might be relatively lower than on D2C platforms because advisors are remunerated on investments and not cash balances, may care less about entry levels and, as more segregated investment funds, be less subject to impending withdrawals to meet upcoming expenditures.

Q11: How are cash balances held, i.e. does it tend to be in a wrapper or for certain products, and how long does it stay uninvested for?

We believe the nature of cash balances held inside or outside a wrapper is slightly different. Those outside wrappers are likely to remain in cash only if there is an expected expenditure, as a buffer against emergencies or placed as an interest-bearing deposit.

Q12: Are certain types of consumers more likely than others to hold large cash balances and, if so, why?

Please see our answers to question 10.

Q13: What determines how the level of interest rates on cash balances paid to customers is set?

We assume that platforms offer the lowest interest rate that they can get away with. Given the historic low of current rates of interest, we doubt that many customers pay a great deal of attention to this. This may change if short-term rates continue to increase and cash becomes a competitive asset class again.

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Q14: What reasons are there for platforms to charge a platform fee on cash and what are the costs for a platform associated with holding consumers' cash?

We suggest that a tougher line be adopted with regard to the practice of charging investors for managing cash balances. Outside of unusual market circumstances where there are negative interest rates, CFA UK find this practice hard to justify and believe that cash balances should be excluded from the wrapper or platform fee calculations.

Q15: How much cash should consumers reasonably hold, and for how long?

On D2C funds, we think cash allocations should be determined by the client.

However, we believe that platforms could do more to inform/remind clients about their cash positions, both on advised and D2C platforms. See our answer to Question 16 below.

Q16: As set out in paragraph 9.18 there are a number of existing rules which require platforms to disclose information that is relevant to a consumer holding a cash balance. Given the high proportion of cash balances:

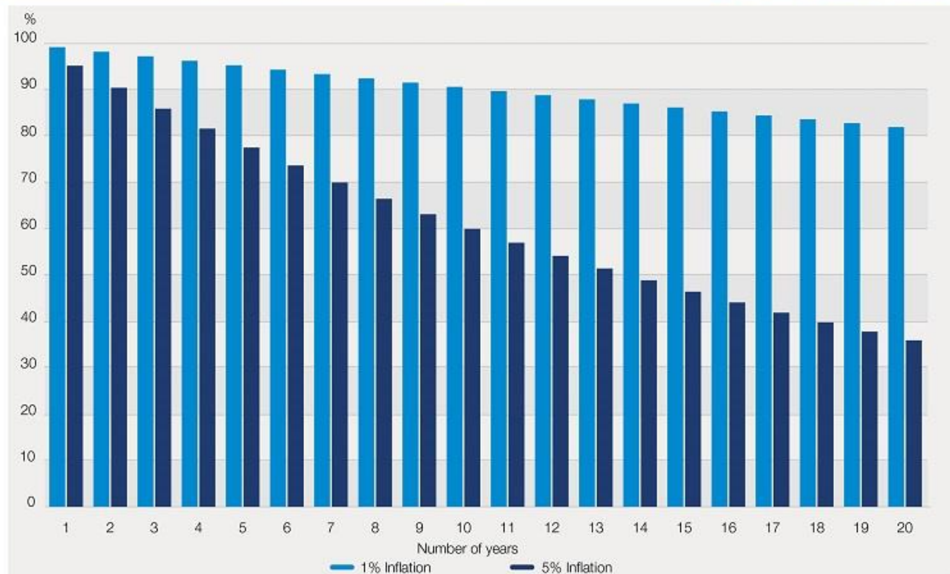
a. how could the relevant disclosure requirements be made more effective at warning consumers of the costs and charges associated with holding cash balances?

We suggest an automatic email or SMS reminder when cash exceeds either (i) a certain threshold (% fund/amount) or (ii) increases by a certain %fund/amount.

b. do you think there are better alternative options which could make consumers aware they are holding cash balances and the charges associated with doing so?

CFA UK oppose the application of platform fees to cash balances. Where it occurs, this should be clearly disclosed.

Additionally, CFA UK suggest informing the consumer of the corrosive effect of inflation by showing its effect on the total value of cash balances graphically in different rate environments, similar to the following:



Source: https://www.schroders.com/en/insights/economics/how-to-prepare-your-portfolio-for-inflation/

CFA UK are also concerned about the lack of appreciation of counterparty risk amongst investors and the potential risks investors might be taking with their cash. We suggest:

- informing consumers with large cash balances that they can protect additional amounts under the FSCS by placing each additional £85k with other banks. This may also push platforms toward offering a choice of banks for cash deposits. We note that:
    - one large D2C investment platform, is currently offering an Active Savings account that offers investors a choice of banks with different interest rates.
    - Another bank is offering investors a choice between (i) an account with a higher interest rate where the money is kept with itself versus (ii) an account with a lower interest rate that splits the investor's cash balance between five banks.
- Where a choice of banks is offered, we think banks should be providing some indication of each bank's credit quality i.e. a short-term and/or long-term credit rating from a recognised credit rating agency to provide the investor with at least some current information of the underlying counterparty risk.
- Platforms should also be required to disclose the difference, if any, between the rate the investor can get by depositing money directly in a bank or holding it in that same bank via the platform. For example:

Bank	Term	Platform rate	Direct rate
Bank A	One year	1.25%	1.70%
Bank B	One year	1.25%	1.65%
Bank C	One year	0.95%	1.20%

- Investors also should be provided with information that would give them a greater appreciation of the difference between the rates offered by the platform and those of qualified money market funds.

THEME 4: Measures to make it easier for investors to switch and advisors to switch platforms

Q17: Is there a role for the FCA in reinforcing the industry initiative to improve transfer times and, if so, what should this role be?

We believe that transfers between platforms can be completed much faster than is happening presently and favour a two-stage process to achieve this, as follows:

- 'Stage 1' would focus on increasing transparency to investors and to the wider industry. We believe that platforms should publish average switch times (and charges) on their website.
- 'Stage 2' would be the drafting and implementing of guidelines for industry-standardised transfer times. Such guidelines should be drafted on the basis of the average disclosed switch times experienced in stage 1 and should aim to reduce those switch times over a period of time as platforms become more efficient at curtailing third party delays and transferring between different fund share classes. In our view, all switches should ultimately be able to be completed within a period of 5 working days.

We are especially concerned with investors who are out of the market for prolonged periods of time if their shares or ETFs are not transferred in specie or if the client is unable to trade while the transfer is in progress.
We note with approval the industry practice of transferring shares or ETFs in specie at midmarket price if the portfolio manager agrees and if doing so does not disadvantage the remaining fundholders.

Q18: What is the likely effectiveness and proportionality of:

a. ***The possible remedies outlined in this section which are intended to make switching easier and increase the competitive pressures operating in the platform market? (The possible remedies were (A) banning exit fees, (B) Providing further guidance around our expectations for adviser charges for switching, and (C) Measures that would improve switching between share classes.)***

We refer to our answers to Questions 19-22 below.

b. ***FCA measures that are intended to improve the switching times and processes by, for example, introducing remedies to shine a light on firms' switching times or setting minimum standards for transfer times?***

As outlined in our answer to Question 17, we consider that shining a light on firms' switching times and setting minimum standards for transfer times to be both effective and proportionate.

We are mindful that provision needs to be made for delays which are not the fault of the departing platform but of either the receiving platform or third-parties.

We do note, however, that there is already guidance in place that ISA transfers should be completed within 30 days and that this is not always followed.

Q19: What should be the scope of a remedy to ban exit fees (i.e. should the ban apply to platform fees only, or also e.g. product-specific fees)?

The ban should apply to all exit fees. Bid/offer transaction costs are inevitable and will apply to certain products, but they should be kept to acceptable and ex-ante estimated levels.

We certainly do not believe that an exit fee should be charged after a period of one or possibly two years on the basis that, by that time, the customer might reasonably be considered to have already paid sufficient fees to the exiting investment platform to cover the switch costs.

Where a switching customer has been with a platform for less than a year there is an argument that is unfair to burden remaining investors on that platform with the switching costs triggered by and relating to a departing investor. This would occur should the platform choose to pass these costs on through a higher platform fee.

Where exit fees are charged we consider that these should be restricted to direct out-of-pocket-fees and expenses, provided that those costs are disclosed on a 'reasonable best guess' ex-ante basis by the platform and that ex-post amounts are broken down and disclosed to the investor and subject to the investor's reasonable challenge. The FCA might wish to consult and provide guidance to the industry on what out-of-pocket fees and expenses might be acceptable.

Q20: Would there be any unintended consequences associated with any of the possible remedies outlined in this section which aim to make switching easier? If so, how could these be overcome?

We are conscious that a client exit imposes genuine costs on the platform exited. This could mean that a ban on exit fees could have the unintended effect of reducing transparency and increasing platform charges, since these costs would have to be part of the entry or ongoing fees. This would result in turn in remaining customers paying for the costs of those leaving which would appear unfair, as described in our answer to Question 19 above. The extent to which this occurred would be mitigated if exit fees were permitted to be charged for those clients that sought to switch within the one- or possibly two-year time-frame (see our response to Question 19 above).

Increased transparency of costs and charges is in the consumer's interests. However, the FCA needs to be careful not to contradict other new legislation (e.g. PRIIPs, MiFID II and DWP Rules) and to implement any change in a sympathetic and harmonious way.

Clients are also concerned with keeping track of past trades, capital gains, interest and dividends for tax reporting and other purposes. Mandated data portability would make switching easier.

The FCA also needs to be careful not to force platforms to publish commercially sensitive information.

All increased costs should be proportionate to the benefits and not add unnecessary costs onto platform businesses, especially if the changes will not impact investors for the better.

Disproportionate costs could force smaller platforms out of business and that entrepreneurship and variety in the range, size and activities of UK platforms is crucial to a healthy and competitive market.

Q21: What costs do advisers incur when reviewing whether they should switch their clients to an alternative platform and then executing a switch?

The costs incurred would likely be the time involved to liaise with third parties, complete the necessary paperwork and lastly any related postage/courier/stationery costs.

Whether this should mean that the costs should be passed to the customer may depend on the specific fee arrangement the adviser has agreed with the customer. We would note that smaller advisers will be more sensitive to added costs than the larger advisers.

In our view, a switching fee would be reasonable for a time-based fee arrangement. For customers charged on an 'ad valorem' fee basis, it is arguable that no additional fees would be merited as this fee takes into account that the need for advice will vary from year to year as customer circumstances change.

Q22: Would guidance on our expectations for adviser switching be useful? If so, what do you think this should cover? If not, what alternative remedies could achieve our aim of ensuring the costs of switching adviser platform are proportionate?

Advisers should advise customers of the advantages and disadvantages of a range of different platform choices, so that the customer can make an informed choice between platforms.

Advisors should present information that would compare each platform features and costs. It would also set customer expectations on how long the platform switch would take and how much it would cost.

Advisors could, for example, use a Value for Money (VFM) analysis of the different funds to give customers a common benchmark to compare the funds against. This could be documented by having the customer sign a consent form stating that the risks, expected switch timescales and expected costs as well as the benefits of the new platform had been explained to him.

For investments or classes of stock not supported on the new platform, the advice would be expected to cover the risk of being out of the market from encashing such stock and also the conversion of an existing investment into a new share class of that same fund so that the fund could be transferred in-specie.

Any guidance should take account of production costs and the impact that this might have on smaller platforms.

THEME 5: Measures to help orphan clients

- **A: Tackling price discrimination between orphan and existing clients.**
- **B: Requiring platforms to have a process in place to get orphan customers to switch to a more appropriate proposition.**
- **C: Requiring platforms to check if there is no activity after a year to ensure their customers are receiving an advice service.**

Q23: What are the likely effectiveness, proportionality and unintended consequences of the remedies listed above (A-C)?

Effectiveness:
Limbs A & B: we believe that the active steps set out in limbs A and B, which are forward-looking (looking at price discrimination and switching investors) are more likely to be effective in eradicating this problem. We agree with the use of Limb A. With Limb B, however, we are concerned that a client may not consider the 'more appropriate proposition' appropriate for his or her needs and may wish to remain in the existing setup until he or she has an opportunity to investigate other options.

Limb C (reviewing activity annual on a 'post' basis) , is retrospective and reactive. However, by being pre-emptive Limbs A and B risk unintended consequences (see below), so careful thought needs to be given to the relevant processes, especially if prior client agreement is not to be obtained.

Proportionality:
Limbs A & B: The FCA could consider making it a requirement of all advisors to inform the relevant advised platform once they cease to act as the client's advisor. This notification could then trigger one of these remedies. Where an advisor has informed an advised platform that they are no longer acting as the client's advisor, we consider both of these remedies proportionate.

Limb C: We would regard it as standard business practice to send clients an annual statement and activity summary. This annual statement could be expanded to include a statement highlighting the higher advised fees for those accounts where there has been no activity and which are suspected to be possible orphan clients.

Unintended consequences:
Limbs A & B: These could include: (i) premature 'dumping' of low-activity or long-term orientated clients; (ii) the forced transfer of funds from an advised platform to a D2C platform which is inappropriate for the client concerned i.e. the portfolio may still contain high risk investments, the client is an unsophisticated investor and needs investment advice; and (iii) an increase in other charges for more active clients because they are no longer subsidised by orphan clients, albeit that we agree this should be the case.

Limb C: we see no unintended consequences.

Q24: Should remedies A-C apply to orphan clients only or other groups of consumers?

Limb A & B: We believe that only orphan clients should be able to benefit from remedies A-B, on the basis that other clients continue to be advised.

Limb C: as stated in our answer to Question 23 above, we would regard it as standard business practice for both D2C and advised platforms could to send clients an annual statement and activity summary. For D2C customers where there has been no investment (or perhaps logging-on) activity, this annual statement could be expanded to include a statement highlighting the inflation exposure and costs of high cash balances resulting as a result of significant redemptions and investment income not being re-invested.

To try and ensure annual statements are given proper attention in circumstances where the account-holder has become unexpectedly indisposed, clients could be invited to register a relative or advisor to whom the annual statement should also be sent. We suggest bank dormant account procedures and policies as a model for similar inactivity in investment accounts.

Q25: Would platforms face any practical challenges in introducing remedies A-C above?

Additional software requirements would likely be required and this would lead to implementation costs.

We note again that the FCA should consider cost impacts for smaller platforms.

We would also query how Limb B could work in practice. We remain concerned that it would be difficult for anyone to be able to ascertain that the 'more appropriate proposition' is actually more appropriate for a client, if they are not being advised and that the default position of the current portfolio may no longer be appropriate either. We also underline our view that the best investment proposition is not just about costs, but is about risk, returns and service too.

THEME 6: Measures to help consumers who may be exposed to unexpected risk levels

Q26: We welcome views on whether the issues we have identified with in-house model portfolios are likely to apply across all types of model portfolios and also exist in model portfolios offered by wealth or asset managers.

Yes, in our opinion, they exist elsewhere. The problem is not easily resolved and we welcome the FCA's intention to consult further in this area. Terms such as 'cautious', 'balanced' or 'adventurous' are prone to being interpreted differently and we believe the industry would benefit from consistent and standardised treatment in both model portfolios and funds generally and better definition:

Generally, we would underline:

- On charges, the extent to which a model portfolio invests in passive funds will drive charges down;
- On risk, the equity content of the portfolio and its weighting, will generally be the main determinant of risk in the portfolio.

Q27: What are the likely effectiveness, proportionality and unintended consequences of the remedies that would:

a. apply current performance and risk disclosure obligations for funds onto model portfolios?

The remedy would likely be effective and proportional but increase cost.

b. require firms to use standardised terminology to describe their strategy and asset allocation, including formalising definitions such as cautious, balanced and adventurous?

We believe that this question does not go far enough and that it is not sufficient for different firms to define terms such as 'cautious', 'balanced' or 'adventurous' differently. We believe that the FCA should introduce standard terms for specific terms, for example, "balanced" could be defined as up *X%*/down *Y%* for the year. We have explored various avenues as to how this information should be presented and have the following suggestions:

- using numerical data that facilitates easy comparison (for example, VaR, Sharpe and Vol). These will not be understood by the average retail investor, but the fact that a number applies makes comparison at least measurable;
- a visual mechanism such as colour coding. This would be easily understood by retail investors in the same way as the 9-box grid on the KIID forms. The 9-box grid is now well established by understood by investors, so perhaps that could form the basis of the FCA's guidance;
- a visual mechanism such as a graph which would enable customers to see (i) the variation of how their investments might grow over time based on aggregate long-term historic performance data of funds in that asset class and (ii) the erosive effect of both (a) proposed fees and (b) an assumed rate of inflation over time;
- clear indication of the use of leverage and the resulting additional risk;
- for newly created funds with a short track record, clear indication that the performance over the short period should not be extrapolated to longer periods and may differ in different market conditions

THEME 7: Addressing potential non-compliance with our rules

Q28: To what extent do existing rules go far enough in making platforms' trading practices transparent to retail investors?

We think the answer to this question will become more apparent once the industry can assess the impact of MiFID II compliance.

We have a concern around the cost of additional rules being introduced to make platforms' trading practices more transparent to retail investors. Any additional rules should complement the existing rules and the associated cost should be proportionate to the benefit being offered to investors.

CONCLUSION

We strongly support giving clients tools that enable them to make better educated decisions, such as ways to compare charges, value for money, and performance; information about the corrosive effect of inflation and charges, and reminders if their cash balance increases a certain % or if they are paying for advised services that they are not using. We believe that one of the best ways to increase competition is to make switching between platforms easier, with mandated timescales and streamlined switching between share or ETF classes.

We also believe that both D2C and advised clients should be permitted to make their own choices, whether to hold large cash balances or to remain with an advised service when they are not taking advantage of the advice. In addition, we urge caution in applying additional requirements and costs that will disadvantage smaller players and market entrants, especially before the effects of recently implemented requirements such as MiFID II are known.

The growth and success of the investment platform sector over the last few years is evident and CFA UK believes this will continue. We welcome the FCA's market study and its drive to improve transparency and service levels in the sector.

Yours sincerely,

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Previous CFA UK consultation responses to the FCA on the Asset Management Market Study:

- Response to FCA Consultation Paper 18/9 (July 2018): Fund Objectives and Use of Benchmarks
https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-letter-to-karen-northey.pdf?la=en

- Response to FCA Consultation Paper 17/18 (Oct 2017): Consultation on implementing the Asset Management Market Study remedies and changes to Handbook
https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-uk-response-to-fca-consultation-paper-1718.pdf?la=en

- Response to FCA Market Study 15/2.2 Asset Management Market Study, Interim Report (Feb 2017)
https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-uk-response-to-ms15-22.pdf?la=en

- Response to FCA Asset Management Market Study (Jan 2016):
https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/letters/2016/1-january/theassetmanagermarketstudy.pdf?la=en

Previous Related CFA UK Publications

- Elements of an Investment Policy Statement for Individual Investors (May 2010):
https://www.cfainstitute.org/en/advocacy/policy-positions/elements-of-an-investment-policy-statement-for-individual-investors