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Response to Technical Consultation on Enhanced Disclosure of Charges and Transaction Costs (March 2017)

The CFA Society of the UK (CFA UK) represents about 12,000 investment professionals working across the UK investment sector primarily as portfolio managers and buy-side analysts among others. Our mission is to educate investment professionals, to promote high ethical and professional standards and to explain the profession to our stakeholders. In our advocacy work, we take as our ultimate objective the best interests of clients.

In our work on regulations, standards and policy our members are represented by several committees, including the Market Integrity and Professionalism Committee. The MIPC has drafted this response on behalf of CFA UK members.

We agree that greater transparency and disclosure can aid clients in determining value for money and improve investor outcomes. To that end, developing a consistent and comprehensive framework for fund costs is a significant step forward. However, we also note that fund costs are only one aspect of the required due diligence. We look forward to engaging with the industry as well as the regulator on setting global standards with regard to professional excellence in the investment management sector.

Below are our responses to the specific questions posed in the paper.

Questions:

1. Will the information contained in the templates along with the associated disclosures in Part IV of the Code provide pension scheme trustees and IGCs with the cost information they need to facilitate 'value for money' judgements?

In making 'value for money' judgements, it is important for clients to look beyond costs alone and consider the context of the investment. Our position paper on "Fees"¹ outlines an approach for estimating value using a combination of fees, performance, and risk. We believe that any conclusions about the value of the investment must use a multi-dimensional approach. To the extent that the code is mainly focused on fees and cost transparency, it can only serve as one input into the 'value for money' assessment. Our concern is that investors may evaluate 'value for money' using only information in the data engine.

Furthermore, 'value for money' judgements must consider the investment sophistication of the investor. Too much detail may create confusion and lead to unintended misuse of data.

¹ CFA UK "Fees – the Cost of Investing", Dec 2015, <http://professionalism.cfauk.org/fees-the-cost-of-investing/>



Whereas granularity may be useful for sophisticated investors, total cost data should be standardized and simply aggregated to make it assessable by less sophisticated investors.

2. Does the information in the Code provide MiFID distributors with the information they need to meet their cost disclosure obligations to clients?

We have no comments given the on-going progress of the regulations.

3. Does the information in the Code provide PRIIP manufacturers with the cost information necessary to create the KID?

We have no comments given the on-going progress of the regulations.

4. Is the approach within the template proportionate? Should there be further granularity in relation to asset classes and implicit costs?

In general, cost comparisons across funds should be made within the relevant asset class and strategy peer group. Investment managers incur costs to the extent that the marginal benefits (in expected short term or long term performance) are expected to be greater than the costs incurred. We need to ensure managers are not incentivised to focus purely on costs at the expense of total performance.

5. Are there specific areas of cost disclosure that require additional consideration?

While we recognize that the IA code is designed with respect to the management of the investment fund, clients need a comprehensive picture of all the costs they face. These costs (such as distribution, platform, and advisor fees) may differ depending on the access point of clients, but should be part of their total cost comparison. We wonder whether the data engine should be expanded to capture these costs. Fund sponsors who purchase services on behalf of investors should disclose their purchasing policy to ensure that investors are receiving good value for money. Other costs, such as policy on allocation of cost across share classes and funds which share the same bought-in services should be captured and disclosed.

In addition, some costs are at the manager's discretion as to how or if they are charged to the fund. There should be informational fields on where or how the following costs are captured: FX, derivatives, pricing policy, and benchmark fees. Costs within the managers' discretion may need to be separated from those beyond the managers' discretion (e.g. custody charges or other third party service providers) to make more appropriate comparisons across funds.

6. What would be the best framework for ongoing development and maintenance of the Code?

The code should be reviewed on at least on an annual basis. Data should be collected and reviewed for trend and effectiveness by a broad group of stakeholders representing the different fund vehicles (pooled/segregated), asset classes (equity/fixed income, etc.),



strategies (active/passive), and client types (retail/institutional).

We are grateful to the Investment Association for considering our views. We trust that these comments are useful and would be pleased to discuss them in person.

Yours sincerely,



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About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 12,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of 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. 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 135,000 members in 140 countries, of which more than 120,000 hold the Chartered Financial Analyst (CFA) designation.