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THE TRANSPARENCY TASK FORCE

Comment on Chris Woolard's Speech at the PLSA Conference

http://www.pensions-expert.com/Investment/FCA-throws-cold-water-on-IA-input-ambitions?utm_campaign=PE+Newsletter+March+13&utm_source=emailCampaign&utm_medium=email&utm_content=

Andy Agathangelou, Founding Chair of the Transparency Task Force and a member of the Investment Association's Advisory Board on Costs Disclosure comments on reports of the speech by Chris Woolard, The FCA's Director of Strategy and Competition, given at the PLSA Investment Conference 2017:

“Based on what I have read I believe that Mr Woolard is absolutely right to not want to be bound by industry initiatives in making new rules for asset managers.

I would urge the FCA avoids being sold the idea of a ‘patchwork quilt of protocols’ on vital issues such as costs disclosure; whereby different parts of the industry introduce ‘codes of conduct’ designed to take care of just their part of the market. An example would be the asset management industry’s trade body in the UK, the Investment Association, attempting to introduce a costs disclosure code for their own members to use. We believe this type of approach may result in inconsistency, confusion and even the potential for ‘gaming’; issues so serious that they have the potential to undermine the efficacy of a robust regulatory framework.

These concerns are particularly valid if:

- There is no effective quality control over the cost data being gathered
- There has not been any open scrutiny of the way in which the code is developed
- The code is merely voluntary
- The terms used to describe costs do not have legally-binding definitions
- There has not been any real attempt to produce the code as part of an integrated, industry-wide effort
- Steps are not taken to avoid 'regulatory whack-a-mole' whereby costs can be gamed from one part of the market to another

Understandably, trade bodies have a primary duty to care for the commercial interests of their members; that in itself is absolutely fine, but given that reality, trade bodies and professional associations are clearly too conflicted to be responsible for the development of a costs disclosure code; especially if they are unable to wholeheartedly support the idea of putting the investors' interests first.

We believe that it is far better if the sector as a whole works together to produce a 'blanket' solution rather than a 'patchwork quilt of protocols' **and for all that work to be properly led by the FCA; regulators are best placed to regulate.**

The shocking findings of the FCA's Asset Management Market Study is all the evidence that could ever be needed that entrusting the financial services sector to self-regulate has been wishful thinking to the point of naivety on the part of previous Regulators. Decades of pseudo self-regulation has failed to prevent the terrible miss-selling scandals that have caused extensive consumer detriment and sapped the public's trust in the sector; therein is a systemic risk that needs to be mitigated, by the FCA.

It is absolutely vital for the public to have confidence in the financial services sector and they are more likely to have confidence in the financial services sector if the sector's Regulator leads regulatory activity

and does not allow itself to be sold the idea that highly conflicted trade bodies might do the job for them.

Mr Woolard is therefore, in my view, absolutely right to signal that it will be the FCA's initiatives that he will put in place to protect financial services consumers, not those of conflicted trade bodies or professional associations.

But it isn't just costs disclosure that needs sorting for consumers; performance reporting is another area of concern. If Schroder are right in stating recently that their approach to reporting is 'in line with standard industry practice' then this is clearly another huge problem that the FCA must investigate straight away because investors deserve clear, complete and credible information on performance; just like they need clear, complete and credible information on costs.

Ministers must be getting concerned that there is a continuous drip, drip, drip of revelations about the UK's asset management industry - it corrodes confidence in our financial system and that's the last thing our economy needs in a post-Brexit world. I have no reason to think that there's some kind of 'Performance-Gate' going on but given the public's low levels of trust in the financial service sector the industry as a whole really should be ultra-transparent on everything it communicates to the market so we can start to regain the trust that has been lost; the industry just keeps on scoring own goals and this needs to stop.

Any sector that seems reluctant to put the interest of its clients first and foremost is inviting scrutiny and the more people look into the workings of the asset management industry the more they seem to find; David McCann at Numis should be applauded for his recent analysis into performance figures; and Peter Lenardos at RBC is spot on in calling for a standard for reporting AUM. It should be the FCA that takes the lead on these issues – you've only got to study their Asset Management Market Study, Interim Report, to see they have the competence, capability and commitment to do a great job of protecting the interests of investors.

On a more general note, you're left wondering if the asset management sector has a cultural problem at its heart – the forensic research behind the FCA's Market Study certainly reads that way to me. The sector desperately needs progressive, enlightened, values-based leadership but the last time the Investment Association had somebody with those qualities at the helm he was ousted, allegedly. Furthermore, last

Summer's very *un-nessie-cerry* "Loch Ness Monster" research that the Investment Association publicised makes me concerned about whether the enlightened leadership the sector needs will have to come from somewhere other than the Investment Association; the 300 Club, perhaps?"

About the Transparency Task Force:

The Transparency Task Force is the campaigning community dedicated to driving up the levels of transparency in financial services, right around the world.

We believe that higher levels of transparency are a prerequisite for fairer, safer and more efficient markets that deliver better value for money and better outcomes to consumers.

Furthermore, because of the correlation between transparency and trust, we expect that our work will help to repair some of the self-inflicted reputational damage that the financial services sector has suffered for years.

We are calling for the investment and pensions industries to place greater emphasis on transparency and value for money moving forward, in line with the direction being given by governments and regulators around the world. This will be welcomed by all right-minded market participants, pro-consumer professional associations and trade bodies.

www.transparencytaskforce.org

About Andy Agathangelou:



- Founding Chair of the Transparency Task Force www.transparencytaskforce.org which is campaigning for greater levels of transparency in financial services, right around the world
- Founding Chair, Friends of the Association of Member Nominated Trustees www.amnt.org which represents lay trustees involved with the effective stewardship and governance of occupational pension schemes. Successes include the Red Lines Voting initiative
- Founding Chair, CIPP's Friends of Automatic Enrolment www.friendsofae.org which has brought together market participants involved in implementing the Government's AE policy. It now has 1,400 members and 18 Regions around the UK
- Chair, Pensions BIB, the collaborative group that created the free and open data standard for auto enrolment www.papdis.org to help drive up efficiency and data security in the payroll and pensions markets
- Governor, the Pensions Policy Institute www.pensionspolicyinstitute.org.uk
- Member, Advisory Board to the Investment Association's work on Cost Disclosure