

July 5, 2018

Via Electronic Mail

Karen Northey
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Re: FCA Consultation Paper CP18/9 (April 2018)

Dear Ms. Northey:

The Investment Adviser Association (IAA) appreciates the opportunity to comment on the Financial Conduct Authority's (FCA's) CP 18/9, Consultation on further remedies – Asset Management Market Study (Consultation Paper). The IAA is a not-for-profit U.S. association that represents the interests of investment adviser firms registered with the U.S. Securities and Exchange Commission (SEC). Our membership consists of investment adviser firms that manage assets for a wide variety of individual and institutional clients, including pension plans, trusts, investment funds, endowments, foundations, and corporations. Many of our members manage or have affiliates that manage assets on behalf of UK clients and UK authorised funds. Most of our members deploy a wide range of strategies, including active management strategies, to help their clients achieve their goals.

Accordingly, we support initiatives and policies that recognize the importance of preserving investor choice and access to a broad range of investments and investment strategies and that value is not fairly measurable by just one metric.¹ As we discuss below, we believe that the Consultation Paper's proposed guidance for Authorised Fund Managers (AFMs) on communicating fund objectives and investment policies (collectively, objectives) in key information documents² reflects this approach, and we commend the FCA for this aspect of the Consultation Paper.³ We especially appreciate the FCA's recognition of the importance of the overall value that AFMs deliver to investors.⁴ This is a more appropriate framework than

¹ The IAA recently launched an Active Managers Council (AMC) to support education, advocacy, and research regarding the value of active management.

² Key information documents include, for example, a fund's Key Investor Information Document (KIID) required by the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive and the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs) Key Information Document ("KID").

³ We do not address other aspects of the Consultation Paper in this letter.

⁴ See, e.g., Annex 2 of Consultation Paper at section 34.

statements in prior consultations that focused on “value for money” only in the narrow context of performance against a benchmark.

Both active and passive management, and indeed a wide range of investment strategies, have important roles to play in investment management and the markets. Active management offers value beyond whether it outperforms its benchmark by helping to meet investors’ individualized and multifaceted risk, return, and nonfinancial goals. Preserving a level playing field is critical to investor choice and robust markets and we commend the FCA for its even handed approach in this Consultation Paper. We believe it is important that government policies do not explicitly or implicitly favor one type of investment management over the other, and support the principle that investors should have access to the full universe of investment products and strategies to meet their individual goals.

We agree with the statement in the Consultation Paper that “[i]nvestors rely on objectives to explain to them what a fund will be doing,”⁵ and we also agree that under existing disclosure obligations, fund objectives are often not explained clearly, and it can therefore “be hard to understand what a fund is trying to do in practice, or to compare different funds.”⁶ The proposed guidance would describe how the FCA expects funds to make their objectives more useful to investors.

It is critically important that investors be put in a position that helps them make more educated choices about their investments. We believe that it is beneficial for investors to have a wide variety of available investment options because of the differences in their needs, goals, and preferences, and it is crucial that they and their investment advisers be able to understand those options. Informed investor choice works for the benefit of investors and the markets as a whole, making them more liquid and competitive. We thus support more transparency regarding fund objectives to allow investors to be better educated about available investment options and help investors and those who advise them select the products that best meet their needs.

To achieve this, disclosure of a fund’s objectives must be clear and easily understood. We thus strongly support the FCA’s desire that it “be clearer to investors what a fund is offering” and that firms “explain succinctly and in plain English what their funds are doing.”⁷ The text used in a fund’s key information document would not need to be identical to text in the fund’s prospectus. It would of course need to be consistent, but framed in clear and easily understandable language. This approach would require that AFMs consider how to describe a fund’s objectives concisely and “without using jargon” so as to enable a retail investor to understand the product.⁸ Clear, transparent disclosure of fund objectives will serve investors well

⁵ Consultation Paper at 3.3.

⁶ *Id.* at 2.12.

⁷ *Id.* at 3.6.

⁸ Consultation Paper, The description of fund objectives and investment policies at 21.

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and will educate them, their advisers, and the markets in general about the variety of authorised funds available to investors.

We are also pleased that the Consultation Paper recognizes the importance of flexibility for an AFM to manage a fund in different market conditions and in the overall interests of investors. We agree that flexibility need not be incompatible with clarity of disclosure and that firms should be able to be clear and transparent as to fund objectives while retaining the flexibility to manage effectively.

In sum, we believe that the proposed guidance on fund objectives would help investors and their advisers better understand available investment options and put investors in a better position to choose the right investments and investment strategies for them.

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We appreciate the opportunity to provide our views and would be pleased to provide any additional information. Please contact the undersigned or Sarah Buescher, Associate General Counsel, at +1 (202) 293-4222 with any questions.

Respectfully Submitted,

/s/

Gail C. Bernstein

General Counsel