Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Submitted online: cp24-7@fca.org.uk

Dear Sir/Madam,

Financial Services Consumer Panel response to FCA CP 24/7: Payment Optionality for Investment Research

The Financial Services Consumer Panel (the Panel) welcomes the opportunity to respond to the FCA's consultation paper on payment optionality for investment research.

Whilst we take the view that not all of the questions are applicable to the Panel, we welcome the opportunity to respond to this consultation and set out our thoughts and key concerns below.

The Panel does not support the proposal to widen the options available for research payment and would remind the FCA that the Secondary International Competitiveness and Growth Objective (SICGO) is only a secondary objective. The narrative about increasing competition does not trump the FCA's consumer protection objective.

In coming to this position, the Panel notes the following (as outlined in the FCA's consultation document)[1]:

1. The ongoing decrease in spend on research is likely to reflect overspend when this was charged directly to consumers

[1] https://www.fca.org.uk/publication/consultation/cp24-7.pdf

2. A relatively stable number of analysts continuing to cover UK companies
3. The large majority (over 80%) of firms viewing the impact of MiFID II on the investment process and outcomes as neutral, with far more (10%) being positive than negative (c.3%) (Figure 6[2])
4. Over 80% of firms answering 'No' to the question "Are there ways in which the MiFID II requirements on research procurement have led to changes in how investment research is undertaken as part of your firm's equity investment process?"

These indicate that research is largely taking place in the same way it was prior to the changes when MiFID II was implemented.

Ultimately, even with the guardrails in place the Panel is unconvinced that the proposals will benefit consumers.

Our key concerns are as follows:

1. A risk that consumers are not aware of what they have (and have not) paid for and how that represents value for money. The current approach enables the consumer to, somewhat, understand what they are paying for above and beyond the annual management charge (AMC). Largely the benefit of research is enjoyed by the firm not the individual (noting that firms state MiFID II has not reduced investment outcomes). It is therefore difficult for the consumer to assess the value for money provided by the research they are 'directly' being charged for.
2. One of the key concerns MiFID II addressed was whether firms were receiving value for money on their research spend, whether they understood this value and whether they allocated and prioritised spend vs the level of value received. The Panel would argue that the consistent level of benefit from research (as reported by firms) considered alongside the reduction in spend on research indicates that firms have become more focused on their research spend (as this now comes from their profit and loss account) and are ensuring that they receive value for the spend they are making. The Panel is concerned that this new focus and diligence would be lost under the proposals and inefficiencies would re-emerge and be passed onto consumers.
3. The Panel is concerned that there are risks around consumer understanding and the ability to compare and contrast investment options. The change in regulation could lead to consumers not

[2] https://www.fca.org.uk/publication/consultation/cp24-7.pdf (page 28)

understanding (or understanding less) the costs associated with their investing activities and therefore becoming less able to make informed decisions. The Panel is also concerned that consumers may be faced with a choice of funds where some charge the consumer for research and others do not. This will make any meaningful comparison more difficult, in terms of comparing both costs and value for money.

4. The Panel would regard this change as significant for consumers and would therefore propose that if the charging mechanism is changed for existing funds, that all consumers that have invested in a fund since the MiFID II requirements were applied should be asked to specifically consent to the increase in costs and charges or be given the option to disinvest without any penalty (including bid/offer spread dilutions).

The Panel remains to be convinced that there are any tangible benefits to consumers and therefore does not support the proposal. Both the data on the actions of firms post-MiIFD II and their responses to this proposal fail to paint a compelling need for change, any benefit to firms should be regarded as secondary to consumer protection and the impact on consumers appears negative.

Yours sincerely,

Helen Charlton

Chair of the Financial Services Consumer Panel