Euro IRP
The European Association of Independent Research Providers

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Competition Division
Financial Conduct Authority
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Sent by email: assetmanagementmarketstudy@fca.org.uk

20 February, 2017

Dear Sirs,

Re: Asset Management Market Study - Interim Report MS15/2.2

I am writing on behalf of Euro IRP, the trade association which represents Europe's independent research providers, in response to your request for comments on your recent market study of the asset management issue.

Euro IRP is an interested party in the asset management industry as the majority of its members' clients are asset managers, both in the UK and worldwide. We are therefore naturally interested in the propensity of the asset management industry and of underlying asset owners to use independent investment research for the benefit of end investors. We are also focused on any changes in the regulation of asset managers that could affect their ability to participate in an efficient and transparent market for investment research.

As we have indicated in responses to prior FCA consultations we are of the opinion that the interests of the market in general, and those of end investors in particular, are best serviced by a research market that is open to new competition, is transparent on pricing and in which conflicts of interest are minimised. We do not have opinions as to the business models practised by our clients and potential clients, and believe that a diversity of approach is the most likely to generate an efficient and effective market.

However there are two areas that we feel, in general terms, Euro IRP is qualified to comment upon.

The first is the issue of fee transparency. A good deal of press attention has been focused on the alleged lack of transparency of fund management fees charged to end investors. This debate has, we believe, tended to contribute to a negative perception of the current research market and has tilted perceptions in favour of a P&L model for the payment of research. (While this approach has some strengths there are dangers in a wholesale move towards a radically different payment mechanism for research, dangers that have been recognised by the UK and European regulatory authorities in their clarification of MIFID II rules on inducements.)

The current study once again addresses the issue of fee transparency by proposing further examination of an all-in fee approach. Euro IRP would like to note that the issue of transparency is not solely about making data available, it also is affected by the ability and interest of the recipient in using that data as part of their decision making process. Fund trustees in the UK have been receiving detailed information about the split of brokerage commission charges between execution and research for many years - as mandated by FCA rules. However, anecdotal evidence suggests that fund trustees in general have not (until recently) appreciated the scale of the fees being paid and the importance of monitoring and policing how these substantial fees are used in order to build performance. Fund transparency by itself is not a miracle cure, it needs to be accompanied by an educational process to help embed the information into the decision tree.

We would therefore support the FCA's proposal that it should investigate ways to provide trustees with clearer information about the charges and performance of fiduciary management. Our stress would be that education on the link between charges and performance is key.

One reason why fund trustees have not focused on all elements of the fees charged by fund managers is that the fund consultants have themselves focused on the development of sophisticated Trade Cost Analysis tools potentially at the cost of taking a more holistic view of the fees being charged. This leads to the second area of the current study where we believe Euro IRP has an interest. This is the suggestion by the FCA that the role of the fund consultants in the overall investment process is due for increased regulatory scrutiny.

Euro IRP would strongly welcome such a focus. We believe that there is growing evidence that the fund consultants are in danger of embedding conflicts of interest further into the investment industry. It would appear clear that having a single organisation being responsible for selecting advisors and simultaneously offering the same advice that is being selected for is open to conflicts. It also appears perverse, in an industry where returns have a tendency to revert to mean, that consultants are incentivised by their own fee structure to regularly recommend moves from cyclically underperforming fund managers to cyclically over-performing fund managers. The fees charged for such regular transitions may not be supported by improved longer term performance and also reduce the ability of asset owners and managers to focus on services that could genuinely improve performance.

We would therefore strongly support the proposal that the FCA should recommend that HM Treasury brings the provision of advice provided by investment consultants to institutional investors within the regulatory perimeter.

We will of course be available for any questions arising.

Yours sincerely,

Chris Deavin, Chairman
The European Association of Independent Research Providers Limited