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FCA under pressure to 'quickly' deliver solutions to investment trust cost disclosure issues

No timetable for legislative enactment



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Image: Chancellor Jeremy Hunt. © Zara Farrar - HM Treasury

Chancellor Jeremy Hunt has said the government is pressing the Financial Conduct Authority to develop short-term solutions to resolve the investment trust sector's cost disclosure issues to avoid “unnecessary delays”.

As part of the Autumn Statement on 22 November, the Treasury **unveiled a consultation** that proposed making changes to PRIIPs and MiFID, which could help resolve the difficulties encountered by inaccurate disclosure, with firms given until 10 January 2024 to respond.

The draft statutory instrument, which outlines the scope of the framework and rule-making powers provided to the FCA by the Treasury, also notes concerns about current cost disclosure requirements, and in particular their potential impact on the investment trust sector.

In a Treasury Select Committee hearing on Wednesday (29 November), Chancellor Jeremy Hunt was asked by MPs how quickly after that deadline had passed the government would be able to enact the statutory instrument.

Autumn Statement 23: FCA mulls 'interim solutions' to address investment trust cost disclosure concerns

The chancellor declined to disclose an exact date, but noted the government recognised the urgency of the action needed to rectify the issue and said it would assess the consultation's responses "as quickly as we can".

"We have made a lot of progress in terms of the draft regulations to replace the previous regulations that we inherited from the EU, accepting Rachel Kent's report on the MIFID regulations, and we want to work at pace with the FCA to resolve this," he said.

The financial watchdog will also publish a consultation on its **draft rules to replace the PRIIPs regulation**, and certain MiFID provisions related to cost disclosure, in the first half of 2024.

MP John Baron asked if the government was applying "gentle pressure" for the regulator to complete its consultation process, to which Hunt responded that there is a "joint commitment from the Treasury and the FCA to resolve this issue at pace".

"We do not want to see any unnecessary delays," he said. "I am optimistic that we will be able to resolve it quickly, even if I am not able to give you a timetable."

Bill to overhaul investment trust cost disclosure rules to be debated in parliament

Last week, the government said the FCA was considering "interim solutions" to mitigate the impacts of current cost disclosure requirements on investment trusts, as the government "acts to implement a long-term legislative solution".

In a statement, the regulator told *Investment Week* it was still considering "what, if any" interim solutions are within its remit, given that many of the disclosure requirements are legislative and will require the government to make changes to enable its new disclosure regime.

Baron asked the chancellor how close, to his knowledge, the FCA was to achieving these interim solutions in the short term, and whether the Treasury had emphasised the urgency of those measures.

"I do not have the answer to that," he said. "But I will happily write to the FCA and not just ask for that information, but also stress the importance of doing these things quickly."

Calls for legislation to go further

Members of the House of Lords, the Association of Investment Companies and industry players such as Gravis have repeatedly called for the removal of the current EU cost disclosure rules, which have caused investment trust charges to appear artificially expensive.

The **Private Members Bill** put forward by Ros Altmann this month, which looks to remove investment companies from the Alternative Investment Fund Managers Directive (AIFMD) regulation, also had its first reading in the House of Lords on the day of the Autumn Statement.

In a LinkedIn post, Gravis said the removal of investment companies, which trade as equities, from AIFMD, would offer a "more complete solution to the problem", and remove them from the follow-on legislation of PRIIPs and MiFID.

AIC sets out proposals to address investment trust cost disclosure concerns

"It is obviously very encouraging that the tweezers are being readied to remove the splinter, but there is a danger that a nagging piece will be left behind. The PMB presents a perfect opportunity to tidy this up and resolve the problem for the entire market," the firm said.

Ben Conway, head of fund management at Hawksmoor Investment Management, also said last week his firm would like to see "urgent legislative change" through the removal of investment trusts from AIFMD, rather than only addressing MiFID and PRIIPs regulations.

"Ros Altmann's Private Members' Bill today outlines that ambition and I remain hopeful that HMT will see the urgency of the situation and how easy it is to fix," he added.