moneymarketing

Search...

News ▾ Autumn Budget 2024 Features ▾ Regulation Platforms Pe

INVESTMENTS PLATFORMS REGULATION OPINION

Ros Altmann: Platforms misleading clients with wrong investment trust information

Ros Altmann
5 November 2024

It has been a momentous few weeks for investment trusts.

At last, the Financial Conduct Authority and Treasury have officially confirmed there are serious errors in published investor cost information for UK-listed investment companies and that these misleading practices must end.

Past flawed cost-disclosure rules created sector-wide selling.

Under intense scrutiny to report lower investor charges, fund-of-funds and wealth managers reduced these seemingly-expensive investment trust holdings, driving share prices to massive net asset value (NAV) discounts.

Ordinary investors who spotted the undervaluation kept losing money as ongoing selling widened discounts further.

> **"Customers wanting to buy, sell or hold investment trusts on their platform are being misled about management charges they pay"**

Such market dysfunction saw good investment companies – many specialising in important areas for boosting sustainable growth – starved of capital, unable to raise new funding. Estimates suggest the UK economy and markets have lost up to £30bn in investment.

The last Parliamentary session had widespread cross-party support for my Private Members' Bill, which sought to stop these damaging misleading disclosures.

So, it was heartening when the FCA and Treasury issued statements and forbearance notices in September, plus draft legislation, to introduce urgent changes.

Sadly, though, the required adjustments have not materialised for ordinary investors.

Although fund-of-funds and wealth managers are correctly reporting investment trusts have no direct costs for shareholders, most retail platforms refuse to do this for their customers.

> **"Some have threatened to de-platform investment trusts whose boards want to comply with the new FCA and Treasury rules"**

Consumer Duty requires all investor information to be clear, fair and not misleading, but customers wanting to buy, sell or hold investment trusts on their platform are still being misled about the management charges they pay.

Some platforms (I will not name and shame) are sticking to publishing the information that was wrong for so long.

They insist on misleading investors that the corporate expenses for managing these trusts are directly deducted from their share value. This is not true. The shares are valued at the market price.

Even worse than this, some platforms are apparently barring their customers from dealing and have threatened to de-platform investment trusts whose boards want to comply with the new FCA and Treasury rules.

> **"How can the platforms justify refusing to treat their customers fairly?"**

Of course, investors need to know all the costs and charges incurred by any businesses they may buy, sell or hold shares in. Nobody is suggesting there are no management costs but, when buying closed-ended investment companies, other information is at least as important, including NAV discounts, type of investments and gearing.

Reports and accounts, factsheets and websites show this information, alongside other relevant data about the companies and their operations. But platforms produce examples showing trust shareholders losing money over time as a result of charges they don't themselves pay, ignoring the other vital information.

The government's draft regulations to replace EU-inspired Priips and Mifid regimes make clear investment trusts must be treated differently and separately from open-ended unit trusts or Oeics (which do make direct deductions from investors who trade at NAV after charges).

The explanatory memorandum states: "The single aggregated figure that is being produced under current EU-inherited rules is not an accurate representation of the actual cost of investment in shares in an investment trust".

> **"Platforms are damaging their customers' interests by shutting them out and preventing them from taking the opportunity to buy UK investment companies"**

How can the platforms justify refusing to treat their customers fairly?

The problem largely stems from overzealous regulatory focus on driving down reported costs. Yes, in the past, direct deductions from investor asset value were not clearly disclosed but things have tightened up.

Meanwhile, misleading investors to believe the appropriate comparison yardstick for judging the value of these investments is how much managers are paid or their other costs is wrong. Nobody would suggest investors wanting to buy an oil stock should choose between buying BP or Shell by looking at their directors' pay or its accountancy costs.

Platforms are damaging their customers' interests by shutting them out and preventing them from taking the opportunity to buy UK investment companies.

The industry must not snatch defeat from the jaws of this long-awaited victory. It's time for change.

Ros Altmann was pensions minister 2015-16 and is a member of the