BlackRock

20th March 2025

Consumer Investments Distribution Policy
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Submitted via email to: cp24-30@fca.org.uk

RE: A new product information framework for Consumer Composite Investments (CCI)

BlackRock[1] is pleased to have the opportunity to respond to the consultation paper on the Financial Conduct Authority's new product information framework for Consumer Composite Investments (the Consultation Paper).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this Consultation Paper and will continue to contribute to the thinking of the FCA on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

Isabel Grime
Managing Director
Head of EMEA Product &
Performance Compliance
Isabel.grime@blackrock.com

Georgina Uwaifo
Vice President
Government Affairs & Public Policy
Georgina.Uwaifo@blackrock.com

Francesca Bluck
Associate
Government Affairs & Public Policy
Francesca.Bluck@blackrock.com

[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Executive Summary

BlackRock supports the FCA's aim to empower consumers to make well-informed investment decisions through reform of the existing retail disclosure regime. Disclosures that are clear and meaningful help consumers to understand the products they are investing in and better reach their financial objectives.

An overemphasis on standardisation and "broad-based comparability" in the previous disclosure requirements meant that disclosures intended to communicate information around costs, risks, and performance for a very broad range of products, often conflated completely different sets of data, and did not help consumers to understand what they were buying, as noted by the FCA in DP22/6.[2] Therefore, while we welcome the objective of the FCA to provide manufacturers and distributors flexibility to surface relevant product information in a way that is clear for retail investors, we believe further steps should be taken to ensure this objective is realised effectively in the final disclosure regime.

Costs and charges

As a fiduciary, we support the disclosure of accurate, easily accessible and decision-useful information for end-investors. Inaccurate information that misrepresents costs directly undermines the Consumer Duty by confusing investors. **Therefore, we believe it is crucial to take this opportunity to rectify the approach that has been taken to date with listed closed-ended investment companies (LCICs), and to do so in as timely a manner as possible.**

We acknowledge that other industry participants have advocated for LCICs to be excluded from the CCI regime. While recognising this position, our response is based on the assumption LCICs will be included in the CCI regime and emphasises the need for tailored treatment for LCICS on key issues such as costs, so as to empower consumers through ready access to accurate information.

When presenting costs and charges information to consumers, it is important to acknowledge that these vary in frequency, function and nature, and should not be indiscriminately grouped together for the sake of simplicity. Terminology around both costs and charges has become conflated over time. Costs are typically incurred by the fund itself, while charges or fees, however, will usually be passed on to the investor directly. The 'total cost' approach taken by the FCA in the form of the proposed cost summary does not acknowledge this differentiation enough, and could potentially obscure consumer's understanding of what they will pay.

We note that the FCA highlights the pending reviews of both the MiFID cost disclosure obligations, and the transaction costs methodology, to be consulted on in early 2025. These represent central components to the clarity and understanding of costs and charges information under the CCI regime, considering the importance of the distributor's MiFID obligations in presenting costs, and the broad criticisms of the current calculation methodology as misleading to investors. The FCA has also stated that it will incorporate feedback from its Call for Input (CfI) on the review of the Consumer Duty and Retail Conduct Rules, in early 2025. Though we do not yet have sight of these draft rules, our response attempts to also address these issues.

Cost summary

Rather than presenting a summary cost illustration, which combines these varying costs and charges (which will impact investors at different points of their investment journey), BlackRock believes the most useful figure to present prominently should be the **Ongoing Charges Figure**

[2] FCA Discussion Paper 22/6: Future Disclosure Framework, December 2022.

(OCF) on an annual basis. This will allow investors to better understand the costs their product is likely to incur on a regular basis, while setting out elements such as the performance fee and entry / exit charges separately.

Transaction costs

BlackRock supports transparency around transaction costs. This can help consumers to assess how efficiently a fund manager can achieve the stated objective of the fund. Conceptually, transaction costs are made up of explicit costs which are identifiable and easily quantifiable and implicit costs which cannot be directly observed. As such, it should be made clear that these costs are typically indicative estimates, which depend on market conditions at the time (and hence not necessarily representative of the ongoing level of such costs), rather than being presented alongside confirmed pre-defined costs or charges such as the management fee. **There is no one simple formula that can adequately represent the costs of trading across multiple strategies and asset classes**.

While no transaction cost estimation method is 'perfect', some have proven to be quite unsuitable for cost disclosure purposes, such as the slippage methodology. Slippage metrics are very sensitive to a number of factors, including market volatility and market data availability, leading to repeated instances of not only negative transaction cost estimates, but also estimates which are artificially inflated, and therefore misleading for investors. Slippage as a metric can be useful for portfolio managers and traders internally, to assess the effectiveness of trading strategies across multiple portfolios by the same manager. It is far less useful as a tool to compare trading costs incurred in a fund run by one manager to costs incurred in a fund run by a different manager.

For the purposes of pre-contractual disclosure, BlackRock believes the only costs which can communicate reliable and useful data at the point of sale are explicit costs, which are precise and measurable. Implicit costs are better suited to other means of disclosure, post-sale. The most reliable means of reflecting the implicit costs of trading on a pre-contractual basis, would be to use a modified spread methodology.

Pull through costs

Synthetic costs, such as those produced where funds invest in other funds and are subsequently subject to multiple fee structures, should be transparent. Fund of fund structures can provide increased diversification and exposure to asset classes that are typically less accessible to retail investors due to higher minimum investment requirements. Transparency associated with these benefits empowers consumers to make informed decisions about whether the costs meet their objectives or not.

However, this should not apply as a blanket rule to all funds holding underlying investment products. LCICs are purchased at their share price, unlike mutual fund structures which trade at their net asset value (NAV). Management fees, and other associated fees of a fund will impact and drive its NAV (alongside the actual performance of the fund's portfolio), whereas the price of an LCIC will reflect fluctuating market sentiment and may trade at a premium or discount to its NAV. **LCICs do (and should) disclose their operational expenses for transparency, but these should not contribute to the OCF displayed to consumers, as these expenses are not deducted from returns.** Whether held by investors directly, or by a fund as part of its strategic asset allocation, we consider it would be misleading to pull these costs through as if they are payable by consumers, when they are instead held by consumers on the basis of their share price alone.

Risk and Reward

We are supportive of the FCA's goal to help firms better emphasise the relationship between risk and reward on behalf of consumers, to improve their understanding of which investment products are best suited to their risk appetite and savings goals.

While we acknowledge some of the drawbacks of the current PRIIPs Summary Risk Indicator (SRI) methodology, there are inherent trade-offs in transitioning to the proposed CCI risk metrics, which could similarly obscure the meaning for retail investors. The increased granularity of a 1-10 scale could indeed help with the differentiation of a larger range of products, but may also result in more frequent re-categorisations of products, even those that are relatively simple. Simplifying the calculation methodology to a focus on volatility as the primary assessment of risk, based on the standard deviation of returns over the last 5 years, also raises concerns. Unlike the PRIIPs SRI, this only takes credit or liquidity risk into account at the manufacturer's discretion, creating the likelihood that products with the same number could represent varying levels of risk, dependent on the rigour of the product manufacturer.

Performance

While past performance is not a guide to future performance, presenting past performance data helps consumers to build an understanding of a manager's historic track record and ability to either match or outperform a benchmark. This presentation also helps consumers understand the relationship between costs and performance, such as whether a higher upfront cost is reflected in superior performance over time. The value consumers can glean from this history is best supported with a bar chart, which can illustrate the fund performance in discrete years. **A line graph presenting performance cumulatively over a 10-year period may obscure fallow years and imply a continuous upward trend**.

Transition timelines and Overseas Funds

Currently, disclosure for funds marketed in the UK follows several standards: PRIIPs Key Information Documents (KIDs), UCITS Key Investor Information Documents (KIIDs) and NURS Key Investor Information documents (KIIs). Typically, any change in a data point would require updates to multiple parts of the product disclosure process, not to mention the complexity of incorporating the new CCI changes. The Consultation Paper's proposed 18-month transition period from the publication of the FCA's final Policy Statement for PRIIPs, UCITS and NURS to comply with the CCI requirements is too short. UCITS and NURS funds are exempt from the PRIIPS regime until the end of 2026. Starting January 2027, these funds will need to produce a PRIIPS KID. Therefore, in the event that the FCA's final Policy Statement is issued later than June 2025, this would shorten the transition period for UCITS and NURS funds, many of which are sold on a cross-border basis under the Overseas Funds Regime (OFR).

We recognise that certain industry participants have advocated for LCICs to be excluded from the CCI regime. However, should the FCA include LCICs within the scope of the CCI, the proposed 12-month transition period is insufficient. Although the FCA issued forbearance on the application of the PRIIPs requirements for LCICs in November 2024, many manufacturers continued to produce PRIIPs KIDs, due to concerns around the relationship of this forbearance to the Consumer Duty. Moreover, many firms manufacture products categorised across the full range of PRIIPs, UCITS, NURS and LCICs, so would effectively have their implementation timelines reduced to 12 months for all products in scope.

As described, the FCA also plans to incorporate the findings from several other overlapping workstreams into the final CCI rules, including reviews of both the MiFID cost disclosure obligations, and the transaction costs methodology, and feedback from its CfI on the review of the Consumer Duty and Retail Conduct Rules. In order to give proper and due attention to the impact of these inputs to the final rules, firms will need time to digest each of the respective findings, and assess the practical implementation.

In light of all of these factors, we suggest the FCA harmonise the transition periods for all products to two years. The PRIIPs rules no longer sit in primary legislation, but rather under the FCA's authority, and as such, the exemption for UCITS funds from producing a PRIIPs KID is within the FCA's power to amend, avoiding poor consumer outcomes.

NM0425U-4410872-5/19

Responses to questions

The wider context

1. **Do you have any comments on our approach to applying the Consumer Duty to CCI product information?**

We support the FCA's approach to develop a disclosure regime that is simple, flexible and fosters innovation. Aligning the principles-based Consumer Duty objectives to the CCI requirements in order to "enable consumers to make effective, timely and properly informed decisions about financial products and services" is a sensible approach to ensure harmonisation from inception. The degree to which this permits flexibility and innovation in the draft rules, however, is limited from a product manufacturer perspective. The standardised requirements concerning the presentation and calculation of costs, performance and risk metrics for both the product summary and the core information largely represent existing requirements and conventions from either UCITS or PRIIPs.

However, we believe a number of the proposals could hinder a retail investor's ability to make informed decisions, such as the transaction cost calculation methodology, which currently produces unreliable cost estimates, or the presentation of past performance as a line graph, which could obscure poor performance years. We suggest potential improvements to these and other areas of the proposals throughout our response.

Much of the proposed flexibility lies with product distributors, who may choose to use layering or dashboards to display the core information, provide supplementary explanations of terms, tailor information to the amount invested, or indeed create an additional product summary. While enhancing consumer engagement through these amendments is generally welcome, we suggest a delineation between the responsibilities of both manufacturers and distributors, for both legal certainty and efficiency in the production and control of the information. Please see our answer to Question 10 for further discussion.

2. **Do you consider the proposed CCI regime could help distributors to assess value for overseas funds? Please explain why or why not.**

Distributors are required to undertake a fair value assessment under the Consumer Duty price and value outcome, which subsequently means overseas fund manufacturers, though not explicitly required to undertake the same assessment, must provide some information to help distributors comply.

The three relevant fair value data points overseas funds must provide are:

- The nature of the product,
- limitations that form part of the product, and
- the total cost the customer will pay throughout the customer journey.

We consider that the proposed requirements could indeed help to satisfy these requirements based on the following:

- The product characteristics discussed in paragraphs 8.3-8.5 of the Consultation Paper include the "product's aims and strategy, any underlying investment assets or reference values, any markets to which the value of the CCI has material exposure or sensitivity, and any environmental or social objectives of the CCI".

- The cost proposals in Chapter 5 of the Consultation Paper provide a comprehensive overview of all the costs associated with the product, including one-off costs, ongoing and transaction costs, as well as performance fees and carried interest. Though we do not agree with the proposed Cost Summary as it could confuse investors (see our response to Question 26), we believe the provision of each of the above costs satisfies the requirement.

With that said, we comment here from the perspective of a manufacturer of both UK-domiciled and overseas funds, rather than as a distributor. As highlighted by the Investment Association (IA), we also acknowledge existing industry-led efforts to help with the provision of this information, such as through the updated European MiFID Template (EMT 4.1).

3. Do you have any comments on the other considerations in Chapter 2, including ESG and Equality and Diversity considerations?

Consumers should have an easily accessible, single source of information concerning the sustainability characteristics of their investment product. Rather than duplicating the information provided in the Sustainability Disclosure Requirements Consumer Facing Disclosure (SDR CFD), firms could instead link to the SDR CFD from the Product Summary.

We also highlight the research findings outlined in The Investing and Saving Alliance (TISA)'s response to this consultation, which demonstrate the impact of disclosure elements such as past performance, or cash benchmarks (which we discuss in our response to Question 29) on underrepresented consumer groups.

Application of the CCI regime

4. Do you have any comments on the scope of products included in the CCI regime?

We acknowledge that industry participants have advocated for LCICs to be excluded from the CCI regime. While recognising this position, our response is based on the assumption LCICs will be included in the CCI regime and emphasises the need for tailored treatment for LCICS on key issues such as costs.

For securities issued by LCICs, the proposals state that the CCI regime would apply only to retail distribution. However, it is not currently possible to prevent shares of LCICs being sold to retail investors on the secondary market. This could mean that even where the product meets the criteria for an exemption to CCI rules, on the basis of being intended for, and marketed to, non-retail investors, it could end up in the hands of retail investors without the necessary disclosures.

To prevent this, we support the Association of Investment Companies' (AIC) recommendation that product manufacturers be permitted to prevent the distribution of investment company securities to retail investors by not providing a product summary, and excluding retail investors from the MiFID target market.

5. Do you have any comments on our proposed scope clarifications? Are there any other areas where it would be helpful to clarify the application of the CCI regime?

We agree with the FCA's definition of a retail investor as outlined in the draft handbook text in Appendix 1, Annex B 1A.1 4 as:

> (1) a *person* to whom an *investment* is sold, or who is the recipient of an offer or *advice* about an *investment*, and who is or would be categorised as a *retail client* under the *rules in COBS* 3".

We highlight this here due to the difference in definition with MiFID, which will have overlap for a number of products in scope.

6. Do you agree with our proposal to allow for multi-option products (MOPs)? Do you have any comments on how MOPs should be treated under the CCI regime, in particular how costs, risk and past performance should be presented to account for the range of products within them and the costs of the wrapper?

No comment.

7. Do you agree with our definition for when a CCI is not a retail product and therefore out of scope? If not, please explain why.

The exemption from the proposed rules for non-retail products, sets out the following criteria:
- Marketing materials (including prospectus where relevant) feature clear and prominent disclosures that the product is not intended for retail investors, and the CCI is only being offered to professional clients/eligible counterparties;
- the issuer has taken reasonable steps to ensure the offer and associated promotional communications are directed only at non-retail investors; and
- a minimum investment of £50,000 applies for each end-investor.

We support the AIC's recommendation that the FCA further clarify this exemption to explicitly include LCICs that are intended for professional or institutional investors.

To support this, while we agree with the £50,000 minimum investment for the majority of CCIs, professional investors, which tend to represent at least half of the investor base of LCICs, can often make smaller investments than this.

Provided the LCIC satisfies the first two elements of the non-retail product criteria – ensuring the marketing materials, the offer, and any associated promotional communications are directed solely towards non-retail investors – we believe it should be exempt from the CCI regime and the requirement to produce a product summary, which would be overly burdensome for a professional investor only audience.

8. Do you agree with our proposed transitional provisions for moving to the CCI regime? If not, please explain why.

No. The transition periods for all products in scope of the CCI regime should be harmonised to at least two years.

The proposals relate to a significant number of investment products in scope, both UK-domiciled and under the OFR, and as the FCA highlights, will be dependent on several other pieces of connected regulation that are still to be consulted on, notably the MiFID II rule amendments for distributors, and the transaction costs methodology. These proposed amendments will play a key role in determining the costs and charges information that investors see. Without clear guidance on these proposed amendments, we have an incomplete view of the impact on the distribution chain and the new regime.

Twinned with this, the FCA has also stated that it intends to publish feedback on its Call for Input (CfI) on the review of the requirements following the Consumer Duty, which will similarly feed into the final CCI rules. Once these outstanding components of the consultation are issued, the industry needs to be given sufficient time to review and determine the impact on implementation.

Furthermore, under the current proposals outlined in the Consultation Paper, PRIIPs, UCITS and NURS will have 18 months from the publication of the FCA's final Policy Statement to comply with the CCI requirements once the final CCI rules are published. UCITS and NURS funds are exempt from the PRIIPS regime until the end of 2026. Starting January 2027, these funds will need to produce a PRIIPS KID. Therefore, in the event that the FCA's final CCI Policy Statement is issued later than June 2025, this would shorten the transition period for UCITS and NURS funds, many of which are sold on a cross-border basis under the OFR. Beyond the policy considerations, operationally, the 18-month timeline is also shortened. Distributors rely on manufacturers to provide the necessary information for compliance, which means manufacturers must be operationally prepared well before the deadline. This preparation ensures that the finished product can be delivered to distributors in time for them to make required disclosures and other operational updates, such as changes to their product filtering processes. Consequently, the 18-month timeline is effectively shorter than it appears.

The proposed 12-month transition period for LCICs is also insufficient. Although the FCA did issue forbearance in November 2024, exempting LCICs from PRIIPs requirements, many investment company manufacturers continued to comply with a number of requirements, such as producing PRIIPs KIDs, due to concerns around the relationship of this forbearance with the Consumer Duty. Moreover, many firms manufacture products categorised across the full range of PRIIPs, UCITS, NURS and LCICs, so would effectively have their implementation timelines reduced to 12 months for all products in scope.

Harmonising the transition periods to two years will require an extension of the UCITS exemption from producing PRIIPs KIDs. This would help to avoid a scenario where investors could receive a UCITS KIID, a PRIIPs KID, and a CCI document, all of which would show contrasting (and likely confusing) product metrics, in the space of six months.

9. Do you agree with the proposed timeline for closed ended investment companies moving to the CCI regime? If not, please explain what alternative timelines you would suggest and why.

As noted in our response to Question 8, transitioning to the CCI regime on multiple timelines for different products will introduce operational complexity for both manufacturers and distributors, with little consumer benefit.

Many firms manufacture a combination (or all) of PRIIPs, NURS, UCITS and LCICs. Delivering against multiple compliance timelines would ultimately result in a need to comply by the shortest deadline, creating a significant challenge for firms in transitioning large volumes of products (some with multiple share classes) within a short timeframe, and with limited available resources. Consequently, this rushed implementation could undermine the integrity and reliability of the disclosed information, potentially leading to confusion and mistrust among investors.

We recommend that the transition timeline is harmonised to two years for all products under the CCI regime.

Responsibility across the distribution chain

10. Do you agree with our approach, including how responsibility is allocated across the distribution chain? If not, please explain why, and how you think responsibility should be allocated.

BlackRock believes there should be clearer delineation in the FCA's approach between the role of the manufacturer and the role of the distributor in the product distribution process.

The proposed requirement for manufacturers to produce the product summary and core information for distributor is welcome, and logical.

The FCA proposes that distributors may create their own product summaries or request changes to manufacturer-produced ones, where they deem these unsuitable for consumer understanding. Manufacturers possess the most expertise about investment products, as they are involved in every stage of the products lifecycle, from setting the investment strategy, to ongoing management and monitoring. As such, manufacturers are best placed to know how key information about the risks, performance, and costs (among the other required core information) should be presented, to convey a true picture of the product. Adapting the information supplied by manufacturers could result in differences in interpretation by consumers, and, though the FCA proposes that distributors should take care to modify without "*any distortion or contradiction, or any obscuring of relevant information about the product*", even minor adaptations to the language could result in miscommunication about important aspects of the product. Ultimately, any challenges consumers may have with the product as a result of these amendments, would be associated with the product manufacturer, rather than the intermediary they purchase from, creating considerable legal risk.

BlackRock recognises, however, that distributors do possess a stronger understanding of consumer needs, and better insight into how to improve their comprehension of product information as those interacting directly with consumers. Therefore, receiving distributor feedback on how to enhance consumer understanding, in line with the Consumer Duty, is important and valuable. To aid efficiency, we support the IA's proposal that such feedback be provided as part of a risk-based escalation process. This would enable distributors to report material issues over a threshold, such as overly complex risk narrative descriptions or confusing cost information. Maintaining this distinction between the responsibilities of manufacturers and distributors will help ensure each party can leverage their expertise effectively, improve understanding about both the content of, and liability for, the information provided, and maintain efficiency in the distribution process.

11. Do you agree with the core information manufacturers would be required to prepare? If not, please explain why and what alternative requirements you would suggest.

We agree with the FCA's criteria for core information. However, we do not necessarily agree with some of the methodologies or presentation proposals on costs, risk and performance, and have suggested amendments in our responses to Questions 21 – 38.

12. Do you agree with our proposal that manufacturers should be required to make their underlying product information available to distributors? If not, please explain why.

Yes.

13. Do you agree with our proposal that manufacturers should be required to make their underlying product information machine-readable? If not, please explain why.

Yes.

14. Do you agree that manufacturers should be responsible for producing a product summary? If not, please explain why.

Please see our answer to Question 10.

15. Do you agree with the proposed requirements for the product summary? If not, please explain why. Do you agree with our proposal not to prescribe its overall design or layout? If not, please explain why and what design requirements you believe we should prescribe.

BlackRock welcomes the flexibility around the design and layout of the product summary, acknowledging that the prescriptive template under PRIIPs created significant challenge with regard to communicating key information about a wide array of products.

However, we outline concerns with the methodology and presentation of certain elements of the cost, risk and performance data in our responses to Questions 21-38.

16. Do you agree with the requirements for distributors to provide the product summary or information within it to potential investors, including the timing of delivery? If not, please explain why.

Please see our response to Question 10.

17. Do you agree with our proposals for providing a product summary in a durable medium if a sale is made? If not, please explain why. Do you have any comments on the requirement of a 'durable medium' for this?

Yes, we agree, provision of the product summary in a durable medium is most appropriate for a 'receipt of sale'.

18. Do you agree that we should require unauthorised firms to follow some of our principles for businesses and basic product governance standards when carrying out CCI activities? If not, please explain why. Do you have any comments on the standards that should be set for these?

No comment.

19. Do you have any other comments on what obligations manufacturers should have in the CCI regime?

No comment.

20. Do you have any other comments on what obligations distributors should have in the CCI regime?

No comment.

Costs and charges

21. Do you agree with the costs and charges we are proposing to require the disclosure of? If not, please explain why and what alternative approaches you would suggest.

We agree with the types of costs and charges identified for disclosure for certain types of products, but suggest improvements to the calculation and presentation of these in our response to Questions 22 - 27.

LCICs are purchased at their share price, unlike mutual fund structures which issue and redeem units at their net asset value (NAV). There are no ongoing costs payable to the investor owning an LCIC, though LCICs do (and should) disclose their operational expenses for transparency. However, if LCICs are required to disclose costs and charges under the CCI regime then LCICs should be subject to variations of the proposed methodology in order for reflect how LCICs are bought, sold and held by investors. The provision of a 'Statement of Operating Expenses', as highlighted by other industry participants, could aid both transparency and consumer understanding of the difference between these and direct costs.

22. Do you agree with our approach to disclosing transaction costs? If not, please explain why.

Please see our response to Question 23.

23. Do you agree with adopting the PRIIPs methodology for calculating transaction costs? If not, please explain why and what alternative methodologies you would suggest.

Challenges of calculating transaction costs
There is no one simple formula that can adequately represent the costs of trading across multiple strategies, asset classes and different product types. Conceptually, transaction costs are made up of explicit costs which are identifiable and easily quantifiable and implicit costs which cannot be directly observed. Even where the same methodology is used to quantify implicit costs, product manufacturers have access to different data sources for different markets, which may generate significantly different results. This makes transaction cost measurements challenging, and any representation of them, an indicative estimate only, rather than an objective direct measurement of costs.

Due to the difference from manufacturer to manufacturer in calculating implicit costs, we would caution against investors trying to use these figures to compare across organisations. Rather, the most helpful evaluation implicit costs estimates can help to facilitate is in the ability to compare one fund to another fund from the same manufacturer, or to evaluate how trading costs evolve over time for a given product manufacturer.

Even in the context of a best efforts estimate, the information provided must still communicate reliable and useful data to the consumer. This data should allow consumers to determine how efficiently the portfolio manager is able to trade, for the relevant investment product.

Unsuitability of slippage
On slippage metrics specifically, while these can be an important tool for portfolio managers and traders to improve investment performance, BlackRock does not believe slippage metrics are suited to transaction cost disclosures.

'Slippage' as a term can refer to a broad range of calculation methods, depending on what portfolio managers and traders are trying to understand. For instance, arrival price slippage measures the difference between the price of an asset at the time the trading decision is made and the actual execution price, while others could use the Volume Weighted Average Price (VWAP) as the benchmark to compare their actual execution price to. This would result in the production of varying figures, comparing two distinct things.

Moreover, slippage calculations are highly dependent on the quality of market data, and very sensitive to volatility, which can create large skews for funds invested in markets and asset classes with low data availability.

The FCA made targeted amendments in PS22/2, which now prevent anti-dilution amendments taking transaction costs below zero. However, this does not remedy the fact that the slippage calculation and explicit costs may still result in a negative transaction cost at the calculation stage, meaning that zero is all that is shown. This also does not recognise that due to the sensitivity to market data, slippage calculations may also produce inaccurately inflated costs also, making clear that the scale itself is inaccurate.

Possible alternatives

Ultimately, for the purposes of pre-contractual disclosure BlackRock believes the only costs which can communicate reliable and useful data at the point of sale are explicit costs which are precise and measurable. Implicit costs are better suited to other means of disclosure, post-sale.

If implicit costs are to be presented on a pre-contractual basis, we recommend a 'Modified Spread' methodology is implemented, to improve the reliability of the data. When well executed, it delivers the highest degree of consistency and comparability, by enhancing existing spread methodologies to incorporate relevant factors that influence trading costs.[3]

In any case, the current slippage methodology should not remain, if communicating decision-useful information remains the FCA's priority. If slippage does remain the chosen transaction cost disclosure method, at minimum we see room for a number of adjustments to improve reliability. When trading orders over a certain time period, unexpected market movements can cause random fluctuations, introducing significant 'noise' in arrival slippage measures. We believe that replacing arrival prices with the interval VWAP as a benchmark would improve the accuracy and interpretability of cost disclosures. To tackle outliers in the data, trimming or winsorizing the extreme values – spikes in trading costs that could be triggered by uncommon events such as the COVID-19 outbreak or Brexit – to address the trades creating the top 5% and lowest 5% of costs in a singular fund for the reporting time period, could be one way to make disclosures more robust by reducing the distortions outliers create. . This could form part of an 'Optimised Slippage' methodology, addressing common concerns raised by market participants about transaction cost calculations under the former PRIIPs requirements.

We look forward to the FCA's resulting consultation paper on transaction costs methodology, to expand on our alternative proposal in more detail.

24. Do you agree with our approach to pulling through costs? If not, please explain why.

Synthetic costs, such as those produced where funds invest in other funds and are subsequently subject to multiple fee structures, should be transparent. Fund of fund structures can provide increased diversification and exposure to asset classes that are typically less accessible to retail investors due to higher minimum investment requirements. Transparency of the costs associated with these benefits empowers consumers to make informed decisions about whether this meets their objectives or not.

[3] For further analysis, please see our ViewPoint: Disclosing Transaction Costs –The need for a common framework.

However, this should not apply as a blanket rule to all funds holding underlying investment products.

LCICs for instance, are purchased at their share price, unlike mutual fund structures which issue and redeem units at their net asset value (NAV). Management fees, and other associated fees of an underlying fund will impact and drive the NAV (alongside the actual performance of the fund's portfolio), whereas the price of an underlying investment trust will reflect fluctuating market sentiment and may trade at a premium or discount to their NAV.

LCICs do (and should) disclose their operational expenses for transparency, but these should not contribute to the OCF displayed to consumers, as these expenses are not deducted from returns. Whether held by investors directly, or held by a fund as part of its strategic asset allocation, we consider it would be misleading to pull these costs through as if they are payable by consumers, as these expenses are already reflected both in the value of the portfolio and in the share price, which the market determines. For funds which hold LCICs, to pull these costs through to the top layer fund would effectively double-count them, misleading investors. Double-counting could create incentives to construct portfolios that exclude LCICs, not on the basis of investor benefit, but solely to prevent the appearance of inflated costs, reducing diversification for these investors.

Therefore, we do not believe the FCA should base the inclusion of synthetic costs on whether the fund is tracking an index or not, as this would create an arbitrary distortion between active and index strategies, but rather on the structure, nature and operation of the underlying investment products held.

25. Do you agree with our product specific cost disclosure requirements? If not, please explain why and if we should extend any of these more broadly. Are there any other product specific clarifications we should consider?

We agree with the FCA's reasoning that the operational costs of managing real assets are "inherent costs of the underlying assets rather than costs of the investment" and therefore believe this approach should be harmonised for all products in scope.

Similarly, we agree that gearing should be explained in the risk-reward narrative disclosure, rather than with the costs and charges, and feel this should be harmonised for all products in scope.

We support the AIC's reasoning that while stamp duty on LCIC shares should be disclosed to the consumer before they make a purchase, this should be disclosed by the distributor, rather than in the manufacturer-produced Product Summary, as this is not an entry cost charged by the manager.

26. Do you agree with our proposals for the presentation of costs and charges? If not, please explain why and what alternative approaches would you suggest?

When presenting costs and charges information to consumers, it is important to acknowledge that these vary in frequency, function and nature, and should not be indiscriminately grouped together for the sake of simplicity. Costs, which are typically incurred by the fund itself, may range from the explicit such as broker fees and taxes, to the indicative, such as transaction costs. Charges or fees, however, can encompass a broader range of expenses, including performance fees, entry and exit fees, and other administrative fees, and will usually be passed on to the investor directly.

The 'total cost' approach taken by the FCA, in the form of the proposed cost summary, would combine these varying deductions – which impact investors at different points of their investment journey, and represent a combination of stable, varying, repeated, and one-off costs – into one figure. This would not communicate a meaningful 'total cost' to the consumer, and could undermine the Consumer Duty by obscuring consumers' understanding of what they will pay in a given period.

The cost summary proposes to aggregate the total of one-off costs (including entry and exit costs), ongoing costs and transaction costs, over a 12-month period. It separates out performance fees or carried interests from this figure, as the FCA rightly acknowledges that it could be "misleading to suggest these contingent costs would always be incurred". The same logic should be applied to both one-off costs, and transaction costs, as presenting these as though they will be charged on an annual basis is misleading. One-off costs will only apply once in the given period, and transaction costs, as highlighted in our answer to Question 23, are also representative of the market conditions at one point in time, rather than representative of a consistent ongoing figure.

Rather than a cost summary, which combines these varying costs and charges we believe the most useful figure to present prominently should be the OCF on an annual basis. This will allow investors to better understand the costs their product is likely to incur on a regular basis, while setting out elements such as the performance fee, entry / exit costs and transaction costs separately.

27. Do you agree with our proposed changes to MiFID costs and charges? If not, please explain why. Are there any broader comments you would like to make on cost disclosure requirements under MiFID II?

The FCA does not provide substantive detail on the proposed changes to MiFID costs and charges.

However, we take a similar view to our thoughts on the cost summary in our response to Question 26. The MiFID cost aggregation rules would require distributors to disclose their service costs alongside product costs. If this is intended to be displayed over a similar 12-month period to the cost summary, we suggest that only the ongoing costs be rolled up into the headline figure. It is important that costs and charges of different types are not bundled together in a way that ultimately confuses investors.

Where possible, we would also support the disaggregated disclosure of the other relevant costs, including performance fees and one-off costs.

Risk and reward

28. Do you agree that we should maintain a standardised horizontal risk score for CCIs? If not, please explain why.

Yes. We do acknowledge however, that a single figure risk indicator can be a powerful influence on investors, so it is important that the calculation methodology is robust.

29. Do you agree with our proposals for narrative risk and reward requirements? If not, please explain why.

As noted in the Consultation Paper, risk is a complex data point to communicate, especially to consumers with little financial background or context (which comprises a large number of retail investors). Risk ratings in isolation can be limited in what they communicate, unless they are compared against alternative products with different scores, which help to better contextualise the scale. Comparison alone cannot however help retail investors to grasp the relationship between risk and reward, which is why we welcome the inclusion of the narrative descriptions.

We welcome the FCA's recognition of TISA research that highlights the impact of risk warnings in deterring individuals from investing. Financial risk does not just arise from investment, and the role of capital markets in helping consumers mitigate risk should also be emphasised. Taking this further, we believe the FCA should review the interaction between the Product Summary and the UK's financial promotions regime. While we support the notion that high-risk products warrant an appropriate 'pop up' risk summary, we believe that products at the lower end of the risk scale could benefit from the inclusion of a 'cash savings benchmark', as proposed by TISA in their response to this Consultation Paper. A cash savings benchmark could help consumers to compare the risk and reward between having their amount invested in a CCI product, and the inflation risk of leaving it in cash, over a certain period.

30. Do you agree that the starting basis for this risk score should be the standard deviation of volatility of the product's historical performance or proxy over the past 5 years? If not, please explain why.

While we acknowledge some of the drawbacks of the current PRIIPs SRI methodology, there are inherent trade-offs in transitioning to the proposed CCI risk metrics, which could similarly obscure the meaning for retail investors.

Simplifying the calculation methodology to a focus on volatility as the primary assessment of risk, based on the standard deviation of returns over the last 5 years, raises concerns regarding applicability to a broad range of products.

The FCA acknowledge that this calculation would not be well suited to a number of products, and instead suggest specific considerations for those, including for structured products, and insurance-based investment products.

Even for products where standard deviation does work, this method is still a narrow consideration of risk factors. The PRIIPs SRI, which is based on a VaR equivalent volatility (VEV) measure, takes into consideration both credit and liquidity risk, demonstrating a more comprehensive assessment of the factors that increase the likelihood of a consumer being unable to realise their investment. The proposal to leave the incorporation of these factors to the manufacturer's discretion, creates the risk that products with the same number could represent varying levels of risk, dependent on the rigour of the product manufacturer.

31. Do you agree that we should expand the risk metric from 1-7 to 1-10 to differentiate a larger range of products? If not, please explain why.

We acknowledge that the current 1-7 scale used in UCITS and PRIIPs disclosures can result in the bunching of a wide range of products in the middle of the scale, limiting the usefulness of the numerical classification. Again though, we note there are trade-offs in transitioning to a 1-10 scale that require consideration on the FCA's part.

A 1-10 scale could indeed provide investors more granularity to differentiate between products, particularly as individuals are more familiar with a 1-10 scale in other areas. A 1-10 scale will also likely result in more frequent changes in the risk classification, even for simpler products. As the Annualised Volatility Intervals the FCA proposes for risk classes 1 to 5 are so narrow, this is especially likely at the lower end of the scale.

This could hinder consumer understanding, compromising alignment with the Consumer Duty, as changes in the risk classification would not be based on a fundamental change in investment strategy, objectives or underlying holdings, but rather, due to flaws in the calculation methodology.

In light of this same risk of confusion, we anticipate that a considerable amount of education will need to be conducted, both by the FCA and the industry, in order to help consumers understand the difference in the scales ahead of the transition. Even with this, there will likely be a perception that products have increased in risk, given the higher scale.

32. Do you agree that firms should consider amending the risk class where they deem it does not accurately reflect the risk of product specifics? If not, please explain why.

As explained in our response to Question 30, we believe firms having to consider whether to amend the risk class on a case-by-case basis highlights the unsuitability of the proposed calculation methodology, and opens consumers up to considerable risk of meaningless classifications.

We believe that reassignment of the risk classification should retain the same material change trigger as that under the PRIIPs SRI. This would require manufacturers to conduct ongoing (monthly) monitoring of the risk rating over four months, and if over the preceding four months each monthly data reference point is higher, then the manufacturer, would be required to update the classification.

While flexibility is generally welcome in other areas, we believe setting out a reliable and clear classification approach will ensure consistency and reliability of the information for retail investors.

33. Do you agree with the proposals for products within the high-risk category? If not, please explain why.

We agree that high-risk products should be appropriately disclosed and given dedicated attention, but have difficulties with the FCA's approach.

As noted in prior questions, we believe the automatic designation of high-risk products is reflective of flaws with the proposed calculation methodology. This categorisation acts as a blunt backstop to the flexibility proposed under CCI, representing a dramatic swing of the supervisory pendulum on both ends of the spectrum. A more balanced, comprehensive medium would be to re-incorporate the PRIIPs Summary Risk Indicator (SRI) VEV assessment, which takes into account credit, market and liquidity risk.

Further to the above, some of the products captured in the FCA's high risk category such as derivatives are often included within a fund for hedging purposes, ensuring efficient portfolio management and reducing the risk of the fund. A fund using derivatives should only be deemed high risk if the derivative exposure is so large that the fund becomes highly leveraged. As highly leveraged products are already captured separately in the high-risk category, it is inappropriate to have a dedicated treatment of derivatives as high risk by default.

34. Do you agree with the proposals for how to apply the risk score to different types of structured products? If not, please explain why.

No comment.

Past Performance

35. Do you agree with our proposals to require showing past performance? If not, please explain why.

While past performance is not a guide to future performance, presenting past performance data helps consumers to build an understanding of a manager's historic track record and discern their ability to either match or outperform a benchmark.

Research conducted by the IA ranks past performance as one of the top three factors considered when selecting a fund, which is understandable, as investors may want to understand the likelihood of the product in meeting their investment objectives.

36. Do you agree with our proposed requirements for a line graph for products that have past performance? If not, please explain why.

A line graph presenting performance cumulatively over a 10-year period may obscure fallow years and imply a continuous upward trend. In line with the objective of improving consumer understanding through the Consumer Duty, BlackRock believes the value that investors can glean from past performance data is best supported with a bar chart, which can more clearly illustrate the year over year fund performance for discrete years.

37. Do you agree with our proposal to require up to 10 calendar years of past performance data to be shown where data is available? If not, please explain why.

We agree that where this data is available, 10 years, presented as 12-month performance data periods, is optimal.

If there is less than 12 months of performance data, we suggest that rather than the proposed minimum requirement of three months, with a disclaimer that the data may not be representative of performance in the longer term, firms should instead provide a narrative description only, as is the standard under UCITS.

Where there have been fund mergers or other activity which may complicate the presentation of the data, presentation of past performance should be approached thoughtfully, to avoid confusion. Industry guidance could help ensure a standardised approach to the presentation of this data, ensuring comparability.

38. Do you agree with our proposed requirements for the inclusion of benchmarks in the line graph? If not, please explain why.

We believe that the requirement to display the equivalent currency value of the £10,000 benchmark is impractical and unhelpful to the consumer. Exchange rates vary when converting the value, so it can be difficult for the consumer to ascertain what the converted figure shows. For simplicity, and in order to prevent de-valuing the figure through currency conversions, we propose the value should be displayed using the units of the fund as the default measure. Units remain stable and are not impacted by external events like interest rates, allowing the consumer to better quantify the amount.

In the case that actual currency values must be used, rather than using an "equivalent currency value" to the £10,000, which could be a meaningless sum in another currency, a common-sense figure in the currency in which the fund is denominated should be used, reflecting an amount consumers would typically invest in that denomination.

Other required information

39. Do you agree with our proposals for required basic information that must be disclosed? If not, please explain why.

No comment.

40. Is there any other basic information you think should be communicated to consumers?

No comment.

41. Do you agree with our Cost Benefit Analysis? If not, please explain why.

Although we cannot comment specifically on the itemised figures provided in the FCA's Cost Benefit Analysis, as it is unclear what assumptions these are based on, broadly, the cost estimates look conservative, and we support the IA's overarching analysis of this.

The costs do not adequately reflect the risk of running multiple investor disclosure regimes for a wide range of products at the same time, which for many firms will likely require outsourced support.

We concur with the AIC's concern that the proposals, as they stand, are at risk of treating LCICs as 'unauthorised manufacturers'. If this is the case, the Cost Benefit Analysis (CBA) does not consider the implications of this fundamental change in position.

Conclusion

We appreciate the opportunity to address and comment on the issues raised by this consultation and will continue to work with the FCA on any specific issues which may assist in the ongoing consultation and subsequent implementation of the CCI framework.