

OUTSIDE INFLUENCE

Christmas presents are usually welcomed with much pleasure and joy, however the ESMA gift of more than 1,000 pages of final consultation on MiFID II was probably not so well received just prior to Christmas.

This document contains the latest recommendations to the European Commission, much of which will eventually become part of its legislation. This could mean that Europe has the last word on how advisers present their charges to clients. In essence, advisors must disclose all costs related to products and advice on a single charge to clients. Whilst not all commentators in financial services agree, this certainly looks as though a single charge is coming.

Each member state has the right to build on top of EU rules. Our RDR is an example of this as it still applies even though MiFID II did not ban commission across the sale of retail products. The new rules are expected to be effective in January 2017. It is likely that this additional legislation will change the disclosure provisions of RDR. Another influence on charging pressure comes from the FS CP which has proposed an overhaul in how fund groups charge and influence disclosure.

The new legislation points the road of travel very much to greater transparency which for some providers of financial services may be hard to achieve. For example, advisors may be expected to include their prospective portfolio costs in the single charge without knowing what the charges would be. Typically, advisors do not know how much dealing fund managers are going to do in the year ahead to create the outcome for the fund's goals and obviously it would be difficult to create an upfront accurate disclosure on that basis.

In addition, the focus of the FCA is also on pricing and adviser conduct. Under RDR the profile of conduct risk has changed from the conflict of interest between the firm and the customer at the point of sale to the conflict of interest in managing a client's assets. The additional focus on adviser charging has created increased scrutiny on advisors business models with a growing emphasis on charging, transparency and the way panels are constructed.

The challenge for fund groups is that an investment manager can pay for research through a payment on account based on a preset research budget, but spending cannot be based on trade volumes executed by a particular broker. It seems both ESMA and the FCA intend that fund groups assume the cost of research themselves rather than passing it on to clients. It will be interesting to see how the market reacts to deliver the transparency required by the regulators at the same time they are under pressure to engage savers, attract funds under management and keep their charges clear and competitive.

In the 482 pages of the MiFID proposals there is clear requirement for investment and pension fund managers to reveal all costs and fees, including hidden costs and underlying fees, to consumers in one figure. In addition, consumers should receive clear itemised statements each year. The net for these rules covers financial advisers, investment managers, discretionary managers, private client wealth managers, platforms and all other financial intermediaries.

The underlying driver here is improving investor protection as well as implementing G20 commitment to improve the transparency and regulation of the more opaque markets such as derivatives.

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