

3rd March 2023

HM Treasury
Horse Guards Road Westminster
London SW1A 2HQ

Submitted via email to: retail.disclosure@hmtreasury.gov.uk

RE: PRIIPs and UK Retail Disclosure

BlackRock¹ is pleased to have the opportunity to respond to HM Treasury's consultation on PRIIPs and the UK's retail disclosure framework.

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 HM Treasury on any issues that may assist in the outcome.

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

Yours faithfully,

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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 strongly supports the Government's goal to facilitate greater retail investor engagement through reform of the disclosure regime. Providing disclosures that are clear, meaningful and proportionate to the risk taken will be more effective in helping consumers make better decisions about their investments.

We welcome the innovation of allowing disclosures to become more interactive (where appropriate for investors) and tailored to investors' needs through the use of digital tools and other innovations.

It is important though to balance this innovation with some sense of alignment with the EU's disclosure regime, so as not to hinder access for UK investors to EU-domiciled products under the Overseas Funds Regime.

We welcome the views outlined by the Investment Association (IA) and the Investment Company Institute (ICI) Global and The Investing and Saving Alliance (TISA) in their respective responses to this consultation and the FCA Discussion Paper, and take the opportunity here to provide detailed comments on a number of areas.

Responses to questions

Question 1:

Do you agree with the description of the various problems with the PRIIPs Regulation as stated above? Are there any other aspects of the regulation that you would like to raise as the government moves beyond PRIIPs into a new retail disclosure regime?

BlackRock agrees with the description of the issues with the PRIIPs Regulation, and supports the view that facilitating single format comparability across the broad range of products available to retail investors is no longer an appropriate primary aim of disclosure to investors. We acknowledge that the level of standardisation the PRIIPs Regulation requires to deliver this comparability can result in key information around costs, performance, and risk being presented to investors in a way that is confusing, or even misleading.

In addition, one of the most crucial shortcomings of the PRIIPs Regulation is the way that transaction costs are calculated. For both new and existing portfolios, transaction cost disclosures should serve as a tool for assessing how efficiently a fund manager achieves their stated objective. Additionally, disclosures should explicitly state which costs are already included in performance figures to avoid misrepresenting their impact.

We believe slippage metrics are not suited to transaction cost disclosures, given their technical nature, exposure to market volatility, and sensitivity to underlying data, which leads to repeated instances of negative transaction costs even when averaged over the three-year period required under PRIIPs. Slippage does, however, represent an important tool for portfolio managers and traders to improve investment performance as part of an analytical toolkit allowing managers to interrogate underlying data sets to assess how trading strategies can be improved even though we do not see it as a useful tool for investor disclosure due to the multiple variables inherent in the tool.

As a single measure of disclosure of costs, without access to the multiple underlying trading parameters it provides a misleading view of the costs associated with a single portfolio or fund. We provide a detailed analysis of the potential benefits of spread methodologies over slippages as an effective consumer disclosure tool with a number of recommendations in our [ViewPoint: Disclosing Transaction Costs –The need for a common framework](#).

Question 2:

Do you agree with the principles set out in paragraph 3.2? If not, please explain.

BlackRock agrees with the principles set out in paragraph 3.2 and has no additional comments beyond those made by the Investment Association.

Question 3:

Do you agree that retail disclosure should aim to ensure that an investor is empowered to make well-informed decisions related to the product that they are purchasing, rather than focusing on comparability? If not, please explain.

We agree that empowering investors to make well-informed decisions should be the priority of retail disclosure. Attempting to achieve comparability across products of varying complexities, classes and structures has proven to be challenging, and can lead to information that is misleading or confusing to investors.

We do support HM Treasury's assertion that key information should be standardised to a degree, such as around costs, to prevent misleading investors.

Question 4:

Do you agree that disclosure requirements should be flexible, with prescriptive requirements for format and structure only when deemed necessary by the FCA? If not, please explain.

It is important not to bundle together the different types of costs and charges for the sake of simplicity, as these vary in frequency, function and nature. In order to truly empower investors to make well informed decisions, it is important for instance for investors to differentiate between one-off costs, transaction costs, and incidental costs like performance fees.

This includes giving consideration to the disclosure of synthetic costs, which arise from the charges of underlying investment products held as part of a product's investment portfolio. These can give the appearance of being higher in price than other products, but should be presented in the context of the performance delivered by the portfolio manager.

Notwithstanding our earlier comments concerning the underlying calculation methodology of transaction costs, we would support the FCA incorporating a cost framework like ICI Global's proposed unified cost categorisation (as detailed in their response to this consultation), or TISA's costs and charges [classification guide](#) (section 7).

Question 5:

Are you content with the decision to resolve the UCITS interaction through empowering the FCA to determine a future retail disclosure regime, as discussed above.

No additional comments beyond those made by the Investment Association.

Question 6:

Do you agree that there is no need to maintain any PRIIPs-related retail disclosure elements in legislation? If not, please explain.

BlackRock

We support the proposal that the FCA will determine the detailed requirements of retail disclosure regulation, and feel that this will facilitate flexibility to review and iterate the rules in line with market experience, a model which works well in other areas of financial services supervision.

However, we do support ICI Global's recommendation for HM Treasury to set parameters in primary legislation against which this framework can be measured and held accountable.

Question 7:

Upon revocation of the PRIIPs Regulation, do you agree with the government's view that the FCA will not require any new additional powers to deliver a retail disclosure regime in line with the objectives stated in Chapter Three? If not, please explain.

As a regulated entity under the FCA's current powers, we do not have any additional comments.

Question 8:

Are there any wider obstacles that prevent or discourage firms from offering investment products from different jurisdictions to UK retail investors, and what actions would you suggest that the government take on this issue?

Maintaining investor choice is a key consideration in the boosting of retail investor engagement. It is important to ensure that as HM Treasury moves forward in creating a new retail disclosure regime, this should seek to preserve some alignment with the EU's disclosure regime, so as not to discourage EU-domiciled funds from being offered to UK investors under the Overseas Funds Regime.

Navigating frameworks that differ too widely in scope and application could reduce investor choice and create additional cost burdens for firms, so it will be key to maintain a focus on achieving equivalent regulatory outcomes.

Question 9:

Do you have any views on digital disclosure, and in particular to what degree do you think a less prescriptive disclosure regime will facilitate innovative disclosure formats going forward?

We are supportive of digital disclosure as a means of disclosure to retail investors, as increasingly, consumers are demanding access to key information in a more interactive format designed around the screen of a smartphone or a tablet. Digital disclosure can facilitate these more innovative and interactive ways to present key information and enable tailoring of disclosures reflecting the characteristics of a fund's investor, ultimately enhancing understanding, and encouraging greater retail investor engagement. The ability to layer figures such as costs and risk ratings will allow investors access to clear and simple information, while providing the means to go into more detail for those that want more information.

A PDF-style document should still be readily available for investors who cannot or do not wish to access their investments online, giving consideration to the necessary standardised elements of key information as discussed in Question 3. The means of distribution to an investor should determine the default format they receive; those accessing products online should be able to benefit from a digital disclosure, but those who may invest by post or over the phone should be able to receive a document in a durable medium.

Question 10:

Do you have views on other priorities for retail disclosure reform that the government and FCA should consider in future? Similarly, are there other challenges or trends in retail disclosure that regulators and policymakers should consider?

We note that the FCA are considering a number of changes that will impact regulatory disclosures, including the Consumer Duty and the Sustainability Disclosure Regulation (SDR), and wish to emphasise the importance of harmonising and aligning the objectives of these Regulations, so as to avoid a confusing patchwork of different approaches for the same policy objective.

We appreciate the opportunity to address and comment on the issues raised by this consultation Paper, will continue to work with HM Treasury and the FCA on any specific issues which may assist in improving outcomes for consumers.