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Financial Conduct Authority
Future Disclosure Framework

Via Email:dp22-06@fca.org.uk

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Future Disclosure Framework consultation response

Dear Sirs,

I am submitting these comments as an active investor in the shares of public companies so my main interest is in the impact of the proposals on private investors.

I give the answers to your detail questions below (answers in red).

I have only answered the questions below that are clear and relevant to my interests.

List of questions

Q1: What are the benefits or drawbacks of the timing of disclosure being prescribed by the FCA? Or should it be left to firms to find the right time for their target consumer?

Answer: A modular form of disclosure would certainly be advantageous so that important information is provided first. In practice that is often the case already. But the negative comments about the use of pdf documents are not helpful. The advantage of the pdf format is that it is a reliable way or presenting documents on multiple types of media including the ability to resize and print the information or save it for later reference.

Q2: Will a durable medium requirement constrain your ability to deliver innovative disclosure? Are there any other rules that may constrain the medium in which information can be provided?

Answer: See comments in response to Q1.

Q3: Do you agree that we should future proof the disclosure requirements? How else can we do this? Do you have any views or evidence on the merits and drawbacks of different approaches to future-proofing?

Answer: I am not clear how disclosure can be future proofed. But clearly constant changes to formats and content prejudice that objective. The key must be to use simple standards.

Q4: How do you envision the distribution of retail disclosure changing over the next 5-10 years?

Answer: I do not envisage this will change substantially although disclosures should become machine-readable, i.e. digitally marked-up.

Q5: Who should have responsibility for producing retail disclosure?

Answer: No comment.

Q6: How should it be determined that a product is suitable for the retail market and therefore that regulated disclosure should be produced? Does this need to be balanced with choice for retail investors?

Answer: A product should be considered to be "available" to retail consumers when it is publicly offered by either manufacturer or distributor or is accessible via the internet. Responsibility for disclosure and its content should lie with whoever publishes information on a product.

Q7: Do you agree with these principles for effective disclosure design? Are there any other principles we should assess?

Answer: I agree.

Q8: Do respondents have any evidence or consumer testing results on the merits or drawbacks of different forms of presentation?

Answer: No comment.

Q9: Evidence suggests that layering in retail disclosure can improve consumer understanding. Do you agree with this and can layering also reduce the burden on firms? Are there any challenges we should consider?

Answer: I support the principle of "layering" of information.

Q10: Are there other interactive disclosure approaches we should evaluate?

Answer: Interactive systems should be avoided and only used to provide supplementary information related to user input.

Q11: How can disclosure requirements facilitate firms to use plain language to further consumer understanding while balancing accuracy, particularly with complex products?

Answer: No comment.

Q12: What do you consider the appropriate balance between flexibility and prescription in disclosure? Does comparison feature in this balance?

Answer: It is important to maintain comparability between very similar products. But comparability between different product types is unrealistic and will not help investors.

Q13: What information, if any, should be comparable? Do you have evidence to support or refute comparability between similar product types?

Answer: Comparability of charges is important when products are similar or dissimilar.

Q14: What level of prescription should be involved in the calculation of costs to ensure clarity and consistency for consumers while also prioritising the need for accuracy?

Answer: The calculation of costs should be strongly prescribed so as to ensure comparability between different providers. I agree with the comments in para. 5.3.

Q15: What are the pros and cons of presenting cost as single figure, with more detailed information layered in disclosure?

Answer: The use of a single figure for costs is an over-simplification that might mislead investors and lead to discrimination between different product types. It should not be necessary to simplify cost disclosure to that extent. However it would be helpful to have some examples and guidelines showing overall costs over the last 5 years to give a true picture of historic costs.

Q16: What level of flexibility should there be in the calculation and presentation of costs and risks?

Answer: Graphical representation of costs might be helpful but only in support of actual data. As regards information on risk, this is a very difficult subject. The consultation document suggests risk can be measured and reported by looking at the past volatility of the price of an investment. This is nonsense. Volatility is simply a measure of variance and emphasises short-term price movements when risks that investors are more concerned with are factors that might affect long-term performance which is likely to be more substantial in overall impact over the life of an investment. Some investment products are inherently more risky than others – for example, those that are subject to the whims of Government regulation/taxation such as alternative energy trusts. That cannot be reduced to a simple metric.

Q17: What is the purpose of performance disclosure?

Answer: Past performance is an important measure to report so long as it is not too short-term. Periods of 1, 5 and ten years should be reported. Future performance scenarios based on historic data are very questionable though and can be grossly misleading. Verbal commentary on past performance can be informative to help investors judge the worth of the data.

Q18: To what extent should the FCA prescribe the performance information to be provided to retail investors? Should the FCA categorise products for the purpose of performance disclosure?

Answer: It should be prescribed in detail but categorising products so that different rules apply to different products should be allowable.

Q19: Would tailoring or flexibility promote accuracy and enhance consumer engagement?

Answer: Tailoring to meet specific target customer groups is a dubious proposition. It will reduce comparability between products and providers.

Q20: Are there other content requirements that should be included in regulated disclosure? Should this content be disclosed alongside product information?

Answer: Disclosures should clearly identify rights to redress in case of complaints and how to complain. As regards ESG disclosure I have doubts that this will substantially assist investors and could well mislead them. There have been numerous examples of organisations promoting investments on their ESG merits while distracting investors from the underlying financial performance. This should have no more emphasis than the general background information on the product developer and promoter. For example their history, performance of other products, ownership, number of past complaints and similar metrics. This is often a question of "reputation" and how they are rated by the market which is difficult to measure but not impossible. I suggest some thought should be given to how to identify the relevant factors that investors like to consider. For example, I rarely invest in new investment trusts or funds as I like to see a track record of success in the long-term before considering investment.

Note: In general I think retail investors cannot easily absorb masses of figures so the emphasis should be on descriptive explanations in disclosures with references to the data where required.

Yours sincerely

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