

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

28 May 2025

By email
cp25-9@fca.org.uk

Dear Sir/Madam

Response to consultation CP25/9: Further proposals on product information for Consumer Composite Investments

We write as a group who have been publicly engaged in highlighting and publicising their concerns, shared by many, about well-intentioned but damaging rules which have been applied uniquely in the UK. The group includes leading industry participants, Parliamentarians, specialist lawyers, fund management groups and institutional investors who are listed below.

The principal aim of the group has been to alert the FCA and policymakers to the harmful impact of these proposals on UK listed closed-ended listed companies, UK financial markets and investors and to assist the Regulator and HM Treasury to resolve the issues which have blighted the growth of London Stock Exchange Listed Investment Companies (LCICs). The group is an informal collaboration of those who feel strongly motivated to ensure that investors are presented with clear, meaningful and accurate disclosures and to assist and support the legislative and regulatory bodies to resolve issues with inappropriate Retained EU Law, which have damaged their contribution to growing the UK's economy.

The group is led by Baroness Bowles of Berkhamsted and Baroness Altmann, who have presented two Private Member's Bills (PMB) in the House of Lords. The first Private Member's Bill, prepared by Baroness Altmann was entitled the *Alternative Investment Fund Designation Bill* and secured cross party support in the House of Lords, including a current Treasury Minister. The aim of the Bill was to remove LCICs from within the AIMFR, bringing the UK into line with every other nation worldwide, however, the Bill was cancelled at the General Election in May 2024. The second PMB has passed from the House of Lords to the Commons and is due to have its Second Reading in July 2025. The Bill is entitled the *Listed Investment Companies (Classification etc) Bill* and seeks to reconfirm the nature and method of valuation of LCICs. The Bill would require the Financial Conduct Authority to take note of the characteristics of LCICs. It would also amend assimilated EU law so that LCICs and advisers investing in them would not be required to aggregate investment companies' disclosed costs (company expenses) in their own fee disclosures to their clients.

The group prepared and delivered a consultation response to HM Treasury in January 2024 which secured backing from over 300 signatories which included industry participants, Parliamentarians, specialist lawyers, fund management groups and institutional investors, who wish to alert the FCA and policymakers to the harmful impact of these proposals on UK listed closed-ended listed companies, UK financial markets and investors. HM Treasury responded by preparing a Statutory Instrument which passed into law in November 2024. The group also prepared and submitted a response to the FCA's CCI consultation which was submitted on 20th March 2025 and which included fifty pages of attestations from market participants and over 400 signatories.

The response outlined in Appendix 1 has been prepared by the group and sets out to address the second section of the CCI consultation process (namely CP25/9). As we applied the same principles within our responses as those used in our CP24/30 Response, and the shorter window for responses, we have chosen not to seek wider industry signatures for this response.

Summary of our position

UK listed closed-ended investment companies are highly regulated by a large number of historic, cross-cutting rules. These regulations are designed to provide protection for investors and to UK market integrity, as well as ensuring high standards of corporate governance. This consultation proposes to add yet more new regulations onto these companies, which will create further costs of compliance, for no added purpose. Indeed, the UK interpretation of EU regulations, which this new CCI regime is designed to replace, have created significant harm to the competitive position, consumer understanding and investor value of these companies. Cost disclosures that confuse investors, by labelling internal expenses of company management as direct charges imposed on investors, have led to large-scale selling of shares on a false premise and stifled the ability of these companies to raise new capital, which could have been invested in productive UK assets. To prolong this confusion within a brand-new UK regulatory regime risks continuing the damage inflicted to UK markets and investors.

Investment companies have a clear role in delivering the Government's objectives for growth by contributing to the creation of a culture of investment, supporting the competitiveness of UK markets and providing capital to UK business. They represent around 37% of companies listed on the FTSE All-Share Index and provide UK investors with diversification of both investment and risk characteristics in a range of sectors.

UK LCICs have lost their international competitiveness. The UK LCIC sector was once the pre-eminent location for launching and raising additional capital for LCICs with UK and other overseas managers looking to list in London, but it has now fallen behind its international peers.

One of the main reasons for this is that the UK classifies a listed company as a product for disclosure purposes. This approach places the UK in a distinctly uncompetitive position vs other developed markets. The campaign group and many others have repeatedly stated that they are in favour of the disclosure of company expenses but that these should not be confused with investor's costs. A clear distinction should be made to ensure that company expenses and investor's costs are kept distinct from each other; LCICs are different to open-ended funds and investors should be wary of trying to engage in direct comparisons. To that end, the campaign group have devised and proposed a Statement of Operating expenses (SOE), which defines those expenses incurred by the LCIC and which are not charged to the investor. It is understood that the model may not meet requirements for pre-sale disclosure, but the intent should be restated; investors should be able to source two items of information – a) what will it cost to own shares and b) how much expense does the company incur to run its business? The two should be kept separate and should be made easily accessible.

The real estate investment trusts ("REIT") market is a powerful sector case study because the REIT regime is a homogenous recognised legal structure that was originally created in the US (not the UK) and has been adopted globally. Today the global REIT market has a market capitalisation of more than \$1.5trillion and is represented on the stock markets of approximately 40 countries, including all

of the G7 and roughly 2/3 of the OECD (source: NAREIT). The UK has applied the regulatory perimeter for retail investment products in a way that is completely different from any other market, including the EU where the regulations originated. Not a single REIT anywhere outside the UK (including the EU) is classified as a retail investment/savings product and reports 'product costs and charges'. Selective disclosure of 'product costs and charges' is fundamentally misleading and distort the market, effectively appearing to raise the cost of capital for UK REITs (and LCICs in general) caught by the UK regulatory cost disclosure regimes. These distortions are also prevalent *within* our market where the AIFMD, PRIIPS and MiFID regulations have been selectively applied to roughly half of the companies listed on the basis of what is an ultimately cosmetic distinction relating to the outsourcing of certain management responsibilities. It cannot be correct that Segro (an internally managed logistics REIT) is deemed to be a commercial company with no 'costs' to investors, but Tritax Big Box, an externally managed REIT that invests in the same buildings in the same sector, is deemed a 'product' with 'costs'. To hardcode these false and misleading distinctions into our regulations is going to continue to distort competition, mislead consumers and undermine the competitiveness of UK capital markets.

The LCIC and REIT sector

Investment Trusts and REITs in the UK are facing an artificially created threat which is so damaging to investor sentiment that it is felt that these sectors may no longer exist if a correct solution is not found in the near future. UK LCICs have been a long-standing UK and international success story, funding long-term capital projects in a way that open-ended funds cannot because of their requirement for liquidity and regular redemptions. These sectors have delivered exceptional long-term returns to patient, loyal investors in many LCICs and whilst bringing investment capital into the London markets.

By continuing to classify LCICs as a product for disclosure purposes, the UK is not aligned with other developed market jurisdictions in which it competes at an international level. This is creating further divergence from international norms and putting UK LCICs at a disadvantage.

LCICs have continuously available, market-determined prices during trading hours. The price reflects the balance between the demand for and supply of the existing shares of each LCIC. The share price is forward looking and so the effects of future expected expenses are already discounted. This means investors buy with that discount. Expense information is important, but it is already disclosed and under consideration by the market already by virtue of the listing rules. A LCIC, as a market instrument, is subject to strict market disclosure rules and any shortcomings would be responded to by the market share price. The desire to compare equity portfolio LCIC expenses with open-ended equity funds' costs must not distort the understanding of the relevance of share price and how the market operates.

The last 2 years have seen a high-profile public debate over investment company disclosures. The forbearance and subsequent legislative changes to remove listed closed ended investment companies ('LCICs') from disclosure requirements in Q4 2024 brought only short-lived relief; the publication of CP24/30 in December 2024 and the recent publication of CP25/9 in April 2025 both created considerable confusion for market participants, posing the threat of a return to the misleading disclosure regime, which was temporarily resolved by legislation in November 2024.

Our response to CP24/30 outlined our four overriding concerns regarding the new CCI regime. We reiterate these again below, as they are fundamental points and are the foundations to many of our responses to your CP25/9 Consultation, which we set out in the Appendix.

- (i) the inclusion of LCICs within the scope of the CCI proposals. For the reasons set out in our responses to the CP24/30 consultation, we believe that LCICs should be excluded from the regime. Their inclusion will severely erode LCIC's competitive environment and introduce a misleading and unfair disclosure environment which has demonstrably led to the withdrawal of investors from the UK Listed market.
- (ii) the proposal to make LCICs *unauthorised manufacturers*. We strongly disagree with any proposal to classify LCICs as unauthorised manufacturers. As evidenced in the CP25/9 Consultation, being categorised as an unauthorised manufacturer is going to lead to further regulatory compliance requirements for LCICs some of which duplicate what AIFMs already do. In addition, the proposals fail to take account of the fact that an LCIC is a listed company and is already governed by Company Law, the Listing Rules, the Disclosure and Transparency Rules, Market Abuse Rules, Corporate Governance Code and Accounting Standards as well as the appointment of an AIFM which is a regulated entity. The additional compliance requirements will replicate many already being carried out by the appointed AIFM and ultimately increase costs that will impact any potential return to end investors. We do not believe this to be acting in the best interests of investors.
- (iii) greater emphasis should be placed upon accurate and simplified language, notably the distinction between 'costs' and 'expenses,' 'fund' and 'company', 'unitholder' and 'shareholder'. The tendency to mix these terms, has contributed to investor confusion. When it comes to LCICs and OEICs, costs are either ongoing charges or operating expenses. LCICs have operating expenses, OEICs have ongoing charges. The two carry clear distinct definitions and that is inarguable. Ongoing charges are deductions from investment value whereas operating expenses are those incurred by the corporate body and pay for the running of a company; they are an accounting term and are not deducted from investment value. Reporting any costs against the share price is fundamentally wrong, misleading, and counter to the principles of the FCA of providing information that is fair, balanced and not misleading.
- (iv) the proposals to aggregate costs (including look-through costs in the new framework) reverse HMT's Statutory Instrument passed in November 2024 and resurrect the same or similar issues that had been acknowledged as providing misleading information to investors and which were removed last year. We do not consider that aggregating costs as proposed can be compatible with the FCA's 7th Principle of Business. We strongly disagree with disseminating a number calculated in this way and which provides communications that cannot objectively be described as clear, fair, and not misleading,

The confusion currently plaguing the LCIC sector is unsustainable and must be resolved as a matter of priority to address the existential threat affecting the LCIC sector.

We agree with the AIC and others that the two options available to combat the threat are:

1. Exclude LCICs from CCI

We do not believe that LCICs or any listed company should be in scope of CCI. These entities are already governed by their own extensive legal and regulatory regime as we have set out above. We recognise that this will require a change to legislation or for the FCA to exclude LCICs explicitly.

2. Ring fence LCICs

Within the CCI regime, ring fence LCICs and then specify that no disclosure obligations apply to investment company securities beyond those required in law, by other regulations and market listing rules and sector guidance. Adopting this approach for LCICs has precedent in the decision to provide an exemption from disclosures from PRIIPs and MiFID II cost disclosures.

Ring-fencing LCICs in this way would return the sector to the pre-2018 position. It would ensure that LCICs could compete fairly with other listed trading company securities and enable LCICs to address the cost disclosure issue that is preventing many of our investors from remaining invested and others from becoming invested.

We strongly urge the FCA to reconsider its position in respect of these principles and in light of our responses to both the CCI Consultations.

Members of the group, cosigning the attached are as follows:

- Baroness Bowles of Berkhamsted
- Baroness Altmann
- Alan Brierley, Investec Bank plc
- Ben Conway, Head of Fund Management & CIO Hawksmoor Investment Management
- Christian Pittard, Head of Closed Ended Funds & Managing Director – Corporate Finance, Aberdeen Investments
- David Appleton (Senior Investment Director signing in a personal capacity)
- Helen Leslie, Investment Trust Company Secretary, Aberdeen Investments
- James De Bunsen, Portfolio Manager, Janus Henderson Investors
- Nigel Farr, Partner, Herbert Smith Freehills LLP
- Richard Parfect, Portfolio Manager, Momentum Global Investment Management
- Tom Harris, Jeffries International Limited
- Tom Poynton, Executive Director, Baron & Grant Investment Management Limited
- William MacLeod, Managing Director, Commercial, Gravis Capital Management Limited.

Appendix 1

Question 2: Do you agree with our proposal to require disclosure of explicit transaction costs? If not, why?

We agree with the proposal that the Company will be required to disclose explicit transaction costs.

As outlined in our CP24/30 response, LCICs are already required to disclose transaction costs (without slippage costs) in the company's annual report within the Investment note to the Financial Statements.

The Company also discloses Transaction Costs in the Statement of Operating Expenses which forms part of the Company Factsheet.

Question 3: Do you agree with our proposal not to require disclosure of implicit transaction costs? If not, why?

We agree with the proposal that the Company is no longer required to disclose implicit transaction costs.

Question 4: Do you agree with our proposal not to require the separate disclosure of transaction costs, and their inclusion in the summary cost figure? If not, why?

We agree that transaction costs are separately disclosed, but we strongly disagree that they should be included in a summary cost figure.

The summary cost illustration perpetuates the key failures of the PRIIPs, and MiFID II regimes cost illustrations. This approach is deeply flawed as it aggregates.

- the variable investor costs of purchasing their investment, which are unrelated to the investment vehicle,
- company expenses incurred in the management of the portfolio investment (for example, management fee, audit fee etc.),
- costs that arise in an underlying investment which the LCIC does not pay, which amount to double counting as the underlying investment is valued net of these costs,
- transaction costs that arise from investment decisions taken by the manager with a view to generating a return to investors.

The result will be a meaningless figure comprising an amalgamation of random costs and expenses. We believe this would breach the FCA 7th Principle of Business as the resultant number would not be clear, nor fair, and would be misleading as it presents non-relevant information to the investor, in the guise that this very limited data set should be instrumental in reaching an investment decision.

We do not believe that the summary cost illustration is a useful metric and believe that it does not support consumer understanding or decision making. It ignores and disguises the substantial differences in the structure and functioning of different investments, notably the entire market nature, price information and operation of a LCIC. For information to be useful it requires to have context and presented in a manner in which the investor can gain some further understanding and contribute to their investment decision. In the absence of a regulatory requirement, we cannot

summon a scenario in which any investment vehicle would voluntarily calculate and disseminate such a number.

As we described in our CP24/30 response, transaction costs are variable costs directly linked to the investment transactions undertaken by the LCIC to deliver its investment strategy. These are a capital expense and are included within gains and losses for Investments in the Statement of Comprehensive Income in the investment company's annual report and are fully disclosed within the notes to the accounts. They are deducted from the value of the portfolio in deriving the NAV. They are not a charge deducted from an individual share's value.

We believe that transaction costs should be disclosed separately and alongside information on the investment portfolio to provide appropriate context.

Question 5: Do you agree with our proposed rewriting of Article 50 requirements, if not, why?

We agree that there should be one set of cost and charges disclosures for both pre- and post- sale and full alignment is a sensible approach.

However, we strongly disagree with the proposal to remove the wording which was added to exclude LCICs from cost disclosures.

Also, as per our response in CP24/30 and our Response 4 above, we strongly disagree with the proposal for aggregated cost disclosures and the use of these aggregated costs in a summary cost illustration.

The requirement for an aggregated summary cost perpetuates the key failures of the PRIIPs and MiFID II regimes cost illustrations (which led to the new Statutory Instrument being issued on 22 November 2024). It is frustrating for the LCIC sector that the proposals are looking to reinstate a representation of costs that were acknowledged as being misleading and subsequently withdrawn. We strongly believe any rewrite of Article 50 must retain the exclusion of LCICs from cost disclosure requirements.

COBS 6.1ZA.1.4BR also requires the distributor to:

(c) (i) When complying with (a) and (b), the firm must also provide the client with an illustration showing the cumulative effect of overall costs and charges on the return of the client's investment in the financial instrument.

We feel the proposals as they stand will resurrect some of the issues that LCICs faced under MiFID into the CCI regime. The outcome will be that the customer will be provided with an illustration that is misleading of the actual impact of costs and charges on their return in contravention of Principle of Business 7.

Requiring an aggregation of costs to be deducted from the value of the investment is not representative of how an LCIC works and results in the disclosure of misleading and artificially high ongoing charges figures ('OCFs') in respect of LCICs.

Expenses incurred by LCICs such as those mentioned in Table 2 in COBS Annex 7 should not be counted as costs and charges that 'are deducted from the value of the financial instrument'.

As is the case with any exchange traded company, the value of an LCIC investment is the market-determined share price, and LCIC expenses are already factored into the market price of the shares. The Company incurs and pays expenses. The expenses are neither directly paid by the investor nor deducted from the value of a shareholder's investment. Disclosures should not imply otherwise. Shareholders are only able to access the investment through the ownership of shares, the price and value of which is determined by the market.

This is contrasted with the ongoing costs of open-ended funds, whose shares are redeemable at the NAV per share which, accordingly, is the value of the financial instrument to the investor. The costs paid by an open-ended fund are deducted from its NAV and, therefore, from the 'value' of such shares.

The value of the relevant financial instrument under consideration and the ongoing costs and charges to be deducted from that value must be determined in a manner which takes into account the key characteristics of the relevant financial instrument which an investor would experience. Where that financial instrument is a share in a LCIC which is publicly traded and has a price determined by the stock market on which it is traded, that share price must be taken to be the value of that financial instrument. The share price is what an investor pays for the share and there are no ongoing costs or charges deducted from a share price, which already factors in relevant costs and charges to be borne by the company. Disclosure of ongoing costs by reference to figures contained in the proposed CCI product summary which will imply that investors will incur costs which are additional to those incurred by the LCICs themselves, give investors the misleading impression that they will incur greater costs associated with investment in LCICs than is actually the case.

Question 6: Do our draft rules replacing Article 50 achieve the intended rationalisation and alignment with proposed CCI rules? If not, why?

In CP24/30 para 1.4, the FCA outlined how CCI was going to replace PRIIPs and UCITs.

LCICs' exclusion from PRIIPs and MiFID cost disclosures is set out in Statutory Instrument 2024 No 1204. This SI made amendments to MiFID [Article 50](#) and [Article 51](#) to support this exclusion.

(3) In Article 50 (information on costs and associated charges), in paragraph 2(b), after "instruments" insert ", except any costs of manufacturing and managing shares in a closed-ended investment company that is UK-listed".

(4) In Article 51 (information provided in relation to units in collective investment undertaking or PRIIPs)— (a) the existing text becomes paragraph 1; (b) after that paragraph insert— "2. The requirements in paragraph 1 do not include any costs of manufacturing and managing shares in a closed-ended investment company that is UK-listed."

The FCAs rewrite of Article 50 in COBS 6.1ZA.14BR and the deletion of Article 51 completely removes the references made in Statutory Instrument 2024 No 1204.

In paragraph 4.18 the FCA state that they will preserve the status quo, where appropriate. We believe this should be one of those scenarios.

We believe any rewrite should retain the exclusion that was added to Article 50, except any costs of manufacturing and managing shares in a closed-ended investment company that is UK-listed.

If it does not, we believe it will resurrect the issues previously impacting LCICs that led to the Statutory Instrument being created.

Question 7: Do you agree with our proposal to delete Article 51 of the MiFID Org Reg (COBS 14.3A.11)? If not, why?

We agree that Article 51 can be deleted.

Question 8: Do you agree with the proposed options available to firms during the transition period? If not, why?

As per our CP24/30 we strongly disagree that LCICs are in scope of the CCI regime.

As per our CP24/30 response, in the event that LCICs remain in scope of the CCI regime, we strongly disagree with LCICs having a different timeline to other products. It will be extremely difficult for LCICs to engage service providers on a different timeline as other products and will result in inefficient and expensive implementation as firms would be required to run with two different timelines and projects. LCICs have already faced this challenge first hand. After the issuance of Statutory Instrument 2024/1204 in November 2024, LCICs were unable to remove the KID as some platforms were unable to make the necessary changes on their systems to accommodate the unexpected change in law. We expect that platforms will look to deliver the required changes as part of a coordinated and aligned industry programme and the whole industry needs to work in concert for the benefit of investors.

As per our CP24/30 response, we strongly disagree that firms can opt to transition at any time during the applicable transition period. The CCI changes will create large scale change in our industry, and it needs to be implemented in an aligned manner to ensure it can be implemented as efficiently as possible. We recommend that the FCA should agree an implementation date to which everyone works towards and 'goes live' at the same time. This will also reduce confusion across the value chain and consumers.

We agree that distributors cannot substitute the manufacturers product summary during the transition period, but we strongly disagree that distributors can substitute the manufacturer's product summary with their own after the transition period has ended.

Question 9: Do you identify any potential problems with or omissions from our proposed consequential amendments to the Handbook?

We agree that the Handbook should be updated to reflect the CCI regime. However, we strongly disagree with the FCA's rewrite of MiFID Article 50 in COBS 6.1ZA.14BR as the reference to Statutory Instrument 2024 No 1204, which was put in place to exclude LCICs from cost disclosure requirements, has not been replicated / adopted. In para 4.18 of the Consultation, the FCA clearly state that they will preserve the status quo, where appropriate, but then fail to do so by not including the law that was put in place to exclude LCICs from cost disclosures.

We strongly disagree with any proposal that would recognise a LCIC as an unauthorised manufacturer which would result in LCICs being in scope of the temporary product invention rules. LCICs are listed companies and already governed by Company Law, the Listing Rules and the Disclosure Guidance and Transparency Rules (see ii above).

Question 10: Do you agree with our approach to complaints handling for unauthorised persons and our proposal for simplified requirements on unauthorised firms within scope of CCI rules to implement complaints handling procedures? If not, why?

We would strongly disagree with any proposal that recognises a LCIC as an unauthorised manufacturer, and that requires the LCIC to set up their own complaint's framework and processes. The current framework in which it is the Manager that is contacted by a complainant works well and should be maintained. We do not believe there has been sufficient disruption or deficiencies in the current practice to suggest the proposal as they stand will benefit the investor experience. A requirement for a LCIC to set up a complaints framework will lead to increased costs for the LCIC which will ultimately have an impact on Shareholder value. The indicative costs set out in the FCA's Cost Benefit analysis for setting up a complaints framework (Small firm £630 / Medium firm £700 / Large firm £4,300) are not what we believe to be reflective of current market costs.

We are also concerned that the CCI regulation, which is about disclosure, is extending its scope into complaints handling for unregulated persons and also does not define the scope of the complaints.