CP24/30 CCI Consultation - Detailed Joint Response

Thursday 20th March 2025

This document sets out the detailed explanations and evidence submitted concurrently with the CP24/30 CCI Consultation – Joint Response. This document has been prepared by members of the House of Lords and Market Participants and independently reviewed and endorsed by Legal and Capital Market Experts, listed on page 17.

For a full list of signatories to this consultation response please refer to the CP24/30 CCI Consultation – Joint Response.

We firmly believe that UK Listed Closed-Ended Investment Companies (‘LCICs’) should be excluded from the Consumer Composite Investments (‘CCI’) rules because they are significantly different to the other products and instruments contained within the proposed CCI framework, both in the way they operate, and in the way they are governed and regulated. LCICs do not belong in the new CCI regulatory regime; they are quoted companies which are already regulated by extensive rules to protect investors, such as company law and listing rules, formal regular reporting, extensive disclosures and the oversight of Independent Boards.

Given this reality, and FCA’s proposed design for the CCI framework, we do not believe it is feasible to have a coherent and workable framework that operates across such a disparate range of investment vehicles. Seeking to apply the rules as proposed will create a range of unintended consequences, including further damage to the attractiveness of the LCIC market and poor consumer outcomes for investors. For this to occur in circumstances where LCICs are already subject to rigorous disclosure and governance regimes and subject to daily scrutiny by the stock market, research analysts and investment community focussing on LCICs seems to be grievous.

We welcome the FCA’s attempt to reflect the feedback it has received on the impact that historical disclosure requirements have had on LCICs. We recognise the FCA’s attempt to address cost distortions in a future CCI regime by excluding LCICs from including costs incurred in the maintenance and commercial operation of real assets, as well as gearing costs. Unfortunately, we do not consider these exclusions to be sufficient to ensure the LCIC market is not unduly harmed by the CCI framework, as we explain below. We have seen hugely damaging impacts from well-meaning regulations purporting to protect consumers, but which ultimately mislead and damage investor interests. These companies are already significantly regulated. The proposed new regime fails to recognise the unique characteristics and benefits of the sector for long term investors.

We are also supportive of the AIC Consultation response but would stress that much of that document and this document respond to proposals that the AIC and we consider inappropriate per se but are submitted in case these misguided consultation proposals do receive ongoing consideration, despite our reservations.

Executive Summary

Listed Closed-ended Investment Companies (LCICs) should be excluded from the CCI regulations and therefore we ask the Government to bring forward further legislation to secure this. It is time to remove the regulatory confusion between the characteristics of open- and closed-ended structures and to end the misleading of investors which has caused needless and costly damage to this important UK financial sector. We recommend that **LCICs are excluded from CCI,** or if that is not possible, then LCICs must, in our view, be a **completely ringfenced subset within the CCI regime, with no additional rules applying**. An extensive array of legislation containing strict disclosure rules already applies to LCICs, making the CCI regulations redundant.

Existing requirements include in particular:

1. Company Law;
2. the Listing Rules;
3. the Disclosure Guidance and Transparency Rules;
4. the Market Abuse Regulation;
5. Financial Reporting Requirements in the form of reports and accounts (the financial statements are prepared in accordance with Financial Reporting Standard 102 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts');
6. Prospectus Regulation; and
7. Other prominent governance and accountability controls via a majority (typically entirely) independent Board of Directors, including AIC Code of Corporate Governance (2024) – which is endorsed by the Financial Reporting Council (FRC).

LCIC investors are already provided with access to:

- the company's interim report and **audited** annual report and financial statements which are publicly available;
- periodic NAV announcements;
- company websites and factsheet;
- market announcements ('RNS');
- independent broker research and market commentary;
- additional performance measures to help investors to evaluate the LCIC including:
  - Discounts and premiums
  - Dividend yield
  - Net gearing
  - Ongoing charges ratio (LCIC expenses expressed as a percentage of the NAV)
  - Total return

One of the differentiating features of an LCIC as compared to an open-ended fund is the independent Board, which acts to represent all shareholders and monitor the performance of the AIFM and the investment manager/adviser to the portfolio. The Board will typically have a

specific right to give instructions to the AIFM/investment manager requiring it to do or refrain from doing a particular thing. As such, the Board has overall authority in relation to an LCIC. The importance of this key relationship was clearly demonstrated in the recent actions taken by seven Boards to successfully defend their companies against the aggressive takeover bids by the American activist, Saba Capital.

These features and common interest do not exist in open-ended structures.

The FCA's CCI Consultation seeks to achieve comparability between LCICs and other investment vehicles. However, it is not possible to achieve accurate comparability between investment vehicles of such different construction as elaborated more fully in the companion submission.

There are no ongoing costs associated with owning shares in a LCIC and therefore there is no 'cost' or 'expense' to pull through. Rightly, the Consultation proposes to recognise this fact for index tracking funds, to avoid 'market 'distortions from making index funds that invest in LCICs appear unduly expensive'. For the same reason, it is inappropriate and wrong for other types of investors to be required to 'pull through' so-called costs for market listed entities that carry a share price, such as an LCIC.

The current proposals are not just damaging to LCICs as a whole, they are also damaging and prejudicial to self-directed retail investors and the active management industry, which will be placed at yet another competitive disadvantage vis-à-vis passive structures. Whilst we agree with the decision to exclude passive funds that track indices from disclosing underlying company expenses, this should apply to all investors in LCICs. **It also appears to be against Government Policy** (see below).

The Consultation and Chairman of the FCA have both confirmed that company expenses are deducted from the NAV, which in an LCIC is not accessible to, and therefore does not impact the investor other than via market response and share price. However, the terminology used elsewhere in the consultation seems to suggest that 'costs' payable by an investor and 'expenses' payable by a company are interchangeable. This is not the case, and that misunderstanding has already been clarified by the FCA and Government's intervention in September and November 2024, clarifying that PRIIPs and certain aspects of the MiFID Org Reg should not apply to LCICs. To reiterate the point, the share price is the sole method of investment in an LCIC from which no ongoing cost or expenses are deducted from or levied on the investor by the company.

The new regulations are likely to be damaging. For example, the Summary Cost Illustration is deeply flawed and combines costs relating to the administration of the portfolio and those relating to investment activities. They are levied at different points and impact the investor or their investment in completely different ways. It is untrue to combine them into a single figure and would result in misleading and completely irrelevant information being provided to the investor.

No other listed equity is required to display a risk rating based upon volatility. The proposal to apply this rating to LCICs could distort investor perception and may imply that longer gaps between liquidity events carry less risk than those that are traded more frequently. LCICs are continuously traded in market hours with live pricing. Other instruments may only be valued quarterly or even less frequently.

It is suggested that if enacted, the CCI regime will apply to LCICs 12 months from the date of publication, which would be 6 months before all other investment vehicles. As well as the implementation challenges this will cause, the mismatch in timing will create confusion for distributors and investors alike with 3 separate regulatory regimes, all active and in conflict with each other. This problem goes away if there are no new rules for LCICs and they provide point of sale information from the **audited** annual reports and accounts as in the industry developed Statement of Operating Expenses.

Inconsistency with Government Policy

On 22 November 2024, The Packaged Retail and Insurance-based Investment Products (Retail Disclosure) (Amendment) Regulations 2024 came into force. In Regulation 3 there was an amendment to Commission Delegated Regulation (EU) 2017/565 of 25 April 2016, known as the 'MiFID Org Reg', which amended both Article 50 and 51 of the MiFID Org Reg to state that the requirements to disclose costs do not include *'any costs of manufacturing and managing shares in a closed-ended investment company that is UK listed'*. This is the current law.

In the explanatory memorandum published to accompany these Regulations paragraph 6.7 states '*Investment firms will no longer be required to disclose costs and charges relating to manufacturing and managing shares in closed-ended investment companies that are UK-listed when disclosing costs and charges information to clients pursuant to the MiFID Org Regulation'*.

It is also explained in paragraph 7.3 that this was a response to the HMT CCI Consultation in January 2024 and ***'This instrument therefore represents an immediate change in policy to address these concerns****, delivered through an additional and separate instrument.'*

On this basis, the Government clearly set out its policy choice to exclude these costs, and to remove LCICs from aggregation. There does not seem any basis for the FCA to reinstate aggregation in the CCI regime in the face of Government policy to the contrary.

Duplication

HMT has repeatedly stated its opposition to double regulation, yet the CCI proposals would create both duplication and regulatory creep over an already highly regulated LCIC sector.

There has been little consideration in either HMT's or the FCA's Consultations of the role performed by other substantial regulation requiring disclosures from LCICs (Company Law, Prospectus Regulation, Disclosure Guidance and Transparency Rules, Listing Rules, Market Abuse Regulation etc).

Urgency

In the time that has elapsed since the HMT CCI Consultation (Jan 24) and the FCA's forbearance and HMT's Statutory Instrument (Autumn 24), the market response has shown that the regulatory and legislative measures taken have neither reassured the market nor been followed as expected by distributors due to, among other things, mixed messaging about obligations under Consumer Duty.

It is unlikely that investors will return to the market in a significant way until they have certainty that undue burdens and technical barriers to their investment are removed. It will be several years before a resolution is reached, if at all, if LCICs are included in the CCI, unless a subset of the CCI framework ringfencing LCICs takes immediate effect. Whether the market can recover without urgent measures being taken now, is far from certain.

Competition

Whilst the Consultation suggests that having LCICs align to the requirements on other products within the CCI framework would "enable effective competition across the market", this does not take into account that some LCICs are in competition with listed trading/commercial companies. LCICs with an indefinite life may benefit from fresh thinking and broader capabilities that reflect changes in market opportunities over time.

In recent months, some LCICs have changed their status to become a listed commercial company. Whilst this is a suboptimal outcome that harms the diversity of the LCIC market, it also removes the requirement to present company expenses in line with CCI proposals, forcing the Boards and key shareholders of companies to make tough decisions between subjecting their companies to overly burdensome regulation in future as an LCIC, or forfeiting the benefits of the LCIC market for more proportionate regulation as a listed commercial company. This is not good a good outcome for consumers, LCICs or the growth of the UK's capital market. It should be noted that there are significant commercial considerations including false economies and a loss of manager's know-how, which may prove economically insurmountable.

Other considerations

The CCI proposals seem to turn the LCICs themselves, which are not regulated under the UK financial services regime, into regulated entities which will be a major structural change to Boards and the settlement of responsibilities under AIFMD. The proposed framework adds a further layer of regulatory oversight, duplicating regulations which already exist to protect the investor. LCICs are not regulated by the FCA and no evidence of FCA analysis has been provided that would justify such an expansion of regulatory oversight.

Many of the other proposals risk creating confusion as to who is responsible for the preparation of information. This should rest with the manufacturer. Responsibility for that is with the AIFM (but can be the LCIC for the few that are their own AIFM).

If distributors change the information provided by the manufacturer or AIFM then it is highly likely that different retail platforms will report conflicting information, as they do today. The proposal implies that expert managers of LCIC are less well qualified to report their business activity than a myriad of distributors.

Conclusion

It is our view that LCICs are not ‘products’ in the same way that other CCI constituents are because of the listing process involved in creating LCICs; the ongoing obligations that only exist on LCICs, when looking across other CCI products and the market trading of LCIC’s shares. This view is only reinforced by the language of the CCI definition, focusing as it does on the concept of a ‘value or amount being payable to the investor being subject to fluctuations because of exposure to…. the performances of one or more assets…’. In the case of LCICs there is no amount or value being paid to an investor other than the market price they receive from a purchaser of their shares on the stock market – exactly the same position as for shares in a listed publicly traded commercial company which would not be subject to the CCI regime

Seeking to create like-for-like comparisons between fundamentally different products, like between a market-based investment such as an LCIC and, for example, an open-ended fund, will likely misinform and add confusion for investors. LCICs as a stock market listed instrument, subject to strict market disclosure rules, would have any shortcomings responded to by the market share price. The collective ‘wisdom of the markets’ is not available to unlisted products. This is a substantial protection mechanism for listed investments, but market reaction also needs to be understood, not hidden behind comparisons with unlisted vehicles.

Within the proposals made there is evidence that suggests the nature of LCICs has not been fully considered or understood, especially given the suggestion that there be ‘pull through’ of ‘costs’ of LCICs into actively managed funds. Actively managed funds, or any other holder of LCIC shares do not experience ‘cost deductions’ from their value (market price) as already recognised by HMT and the FCA. It is therefore unclear how pulling through these costs from LCICs can ever be appropriate.

Whilst the CCI regime may seek to increase transparency over products that act as ‘assemblies’ of investments, and which do not have a continuous independent measure of value, this is not the case for LCICs for the reasons set out above.

The consultation invites views from respondents on whether the FCA’s tailoring for LCICs strikes the right balance or whether further adaptation, or further guidance, may be needed. Whilst we appreciate the consultative nature of the CP, we strongly believe that the proposals put forward offer limited tailoring and continue to apply a ‘one size fits all’ regulation and articulation to investments which are entirely distinct from each other.; such a situation is inappropriate and not in the consumer interest.

After much deliberation, we believe the only worthwhile solution is **to exempt LCICs entirely from the CCI regime**, as indeed the FCA appears to have done with the listed commercial companies. If necessary, we believe that the Government should legislate this exemption for LCICs and / or the FCA should exercise its broad regulatory discretion, and upon considering the consultation process feedback, make an early announcement that there will be no new rules for LCICs. This is essential in order to restore the market to a situation that is compliant with both the spirit and letter of Consumer Duty.

Terminology

The terms of reference applied to aggregated investment vehicles is, at times, confusing and overlapping. This is unhelpful when considering the relevance of specific areas for discussion. A glossary of terminology, used in this document and by the sector follows:

Terms	Open-ended Investment Company	Closed-ended investment company
Alternative names	OEIC, Fund	LCIC, Investment trust, listed investment company, REIT
Structure	Investment product with variable capital	Fixed number of shares in issue, subject to new share issuance and share buybacks
Unit of ownership	Units/OEIC Shares	LCIC shares, equity
Ownership	Unit holder	Shareholder
Transfer of ownership	Units created and bought by investor or sold by investor and cancelled	Shareholders buy and sell through the Market from the fixed number of shares in issue at any given time
Delivery of returns	Net Asset Value (NAV), Predetermined [?] Unit Price	Share Price
Charges	Costs, charges, fees	Company expenses
Who pays	Unit holder through deduction from NAV	Company taken into account in share price
Link between investor and payment	Direct. Unit holder is 'charged' daily for ownership of units	None.
Method of payment	Costs are deducted from the value of the NAV	Company's payment of expenses reflected in NAV
Impact of charges on investor	Direct	Share price takes company expenses into account
Correlation of price to value	Direct link between NAV and unit price and value realised by investor on redemption	Loose representation of share price to NAV
Premium/discount	Not possible. Unit price always equals NAV	Share price moves independently of NAV either above (premium) or below (discount)
Investment advice	Manufacturer, fund manager, investment adviser	Fund manager, AIFM
Governance	Authorised Corporate Director	Board of Directors
Representative body	Investment Association	Association of Investment Companies

We ask the FCA to review this response holistically and not through a siloed 'Chapter' or 'Question' lens

Executive Summary of Responses

No	Question	Sentiment	Key Points
1	Do you have any comments on our approach to applying the Consumer Duty to CCI product information?	Disagree	▪ Prescriptive approach ▪ Misleading information ▪ Change of entity for Consumer Duty (from AIFM to LCIC)
2	Do you consider the proposed CCI regime can help distributors to assess value for overseas funds? Please explain why or why not.	Disagree	Additional barrier for doing business in the UK
3	Do you have any comments on the other considerations in Chapter 2, including ESG and Equality and Diversity considerations?	No Response	
4	Do you have any comments on the scope of products included in the CCI regime?	Strongly Disagree	(1) Exempt LCICs from CCI; or (2) Ring fence within CCI regime with no extra rules
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?	N/A	See Q 4
6	Do you agree with our proposal to allow optionality 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 response	
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.	Disagree	▪ LCIC are not products. ▪ Board should decide if their shares are appropriate for retail investors

No	Question	Sentiment	Key Points
8	Do you agree with our proposed transitional provisions for moving to the CCI regime? If not, please explain why.	Strongly Disagree	▪ LCIC position needs to be addressed urgently to give certainty to investors. ▪ Re-iteration of Response 4 Options ▪ Separately, industry implementation of CCI all has to be aligned to one agreed date. ▪ Failure to align timetable will leave 3 sets of rules in place at one time. ▪ Further confusion for investors
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.	Strongly Disagree	Quick resolution required for LCICs
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 responsibilities should be allocated.	Disagree	▪ A LCIC is not a manufacturer. It is a listed company. ▪ X-ref to Response 4 and Response 18 ▪ Outline of concerns about Distributors being able to tailor LCIC information.
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.	Disagree	▪ LCIC already produce relevant information through a variety of mandatory publications – these are listed out. ▪ 'One-stop' comparisons are inappropriate

No	Question	Sentiment	Key Points
			▪ Concerns around approach to consumer testing on core requirements.
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.	Agree (with EMT caveat)	▪ LCICs already do this. ▪ Raise concern that success is dependent on the EMT service being flexible to include LCIC specific requirements.
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.	Agree (with EMT caveat)	▪ LCICs already do this. ▪ Raise concern that success is dependent on the EMT service being flexible to include LCIC specific requirements.
14	Do you agree that manufacturers should be responsible for producing a product summary? If not, please explain why.	Disagree	See Q 11
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.	Disagree Agree	▪ Requirements – disagree- LCICs already produce the relevant information for the LCIC investor. ▪ Design – agree it should be flexible
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.	Disagree	▪ Product summary requires in-depth expert knowledge of underlying company. ▪ Distributors should publish in a timely manner, information received from LCICs
17	Do you agree with our proposals for providing a product summary in a	Agree	For example, e-mail

No	Question	Sentiment	Key Points
	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?		
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?	Strongly Disagree	This is moving the regulatory boundary without full consultation, justification or evidence.
19	Do you have any other comments on what obligations manufacturers should have in the CCI regime?	No response	No response
20	Do you have any other comments on what obligations distributors should have in the CCI regime?	Yes	▪ Up to date information ▪ Adherence to laws and regulations ▪ Clear and not misleading presentation ▪ Terminology ▪ MiFID disclosure requirements
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.	Strongly Disagree	▪ U-turn of current law, as set out in HMT SI, Nov 24 ▪ Different treatment for different investors is incomprehensible. ▪ Summary cost illustration calculates a meaningless figure, which is not charged.
22	Do you agree with our approach to disclosing transaction costs? If not, please explain why.	Disagree	Should not be disclosed – these arise through implementing the investment strategy

No	Question	Sentiment	Key Points
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.	Disagree	Most investors will not know what this is and therefore has no meaning
24	Do you agree with our approach to pulling through costs? If not, please explain why.	Strongly Disagree	There is no pull through costs arising from investment in an LCIC.
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?	Agree	Agree gearing costs and operational costs in managing real assets held by an LCIC should not be disclosed.
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.	Strongly Disagree	Issues with **presentation of** ▪ Expressing each of the figures as a percentage of the applicable investment amount ▪ Summary cost illustration ▪ One off entry and exit costs. ▪ Ongoing costs ▪ Pull through costs. ▪ Transaction costs
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?	Disagree	▪ Proposals to address MiFID costs and charges are essential but absent. ▪ Highlight two areas of MiFID that need to be addressed as a matter of urgency
28	Do you agree that we should maintain a standardised horizontal risk score for CCIs? If not, please explain why.	Disagree	▪ Past performance does not have a bearing on anticipated returns.

No	Question	Sentiment	Key Points
			▪ No other circumstance in which a listed equity would be rated with an estimated risk score. ▪ Single risk score is a strong influence on a retail investor and potentially lead to wrong decisions being made. ▪ Risk narrative is more informative
29	Do you agree with our proposals for narrative risk and reward requirements? If not, please explain why.	Agree Disagree	▪ Supportive of risk narrative but LCICs already provide Principal Risks and Uncertainties (in annual report) and Risk Factors the investor should consider prior to investing. ▪ No further risk requirements should be applied to a LCIC without being applied to all listed companies
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.	Disagree	▪ LCICs are market instruments and should not calculate a risk score. ▪ Methodology ignores liquidity. ▪ A period longer than 5 years recommended.
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.	Neutral	▪ Better spread but will result in products moving across different risk scores more frequently.

No	Question	Sentiment	Key Points
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.	Disagree	▪ Highlights the methodology is flawed. ▪ Introduces subjectivity. ▪ Difficult for distributors to rely on if it has been changed
33	Do you agree with the proposals for products within the high-risk category? If not, please explain why.	Disagree	▪ No guidance on what highly leveraged means ▪ The use of leverage is accounted for in the volatility data
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 response	
35	Do you agree with our proposals to require showing past performance? If not, please explain why.	Agree	▪ Must ensure it states past performance is not a guide to future results. ▪ Past performance based on share price. ▪ Presentation of NAV is optional
36	Do you agree with our proposed requirements for a line graph for products that have past performance? If not, please explain why.	Neutral	▪ Line graphs better for showing trends. ▪ Bar charts better for comparing data
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.	Agree	▪ LCICs already produce 10-year performance data. ▪ **But** calendar year definition must include LCIC's fiscal year end
38	Do you agree with our proposed requirements for the inclusion of	Disagree	▪ The Board should decide this.

No	Question	Sentiment	Key Points
	benchmarks in the line graph? If not, please explain why.		▪ Agree with Para 7.19 that permits CCIs without a benchmark to give an alternative method to assess performance.
39	Do you agree with our proposals for required basic information that must be disclosed? If not, please explain why.	Disagree	▪ LCIC already publish relevant pre-sale disclosures as a company factsheet that aligns with existing AIC methodology
40	Is there any other basic information you think should be communicated to consumers?	Neutral	▪ Reiterate Response 1 – LCIC investor information needs are different to that of an open-ended fund investor. ▪ Reiterate Response 4 – more beneficial to the investor to be able to compare listed companies than attempt to compare across a whole continuum of investment vehicles.
41	Do you agree with our Cost Benefit Analysis? If not, please explain why.		No response

For a full list of signatories to this consultation response please refer to the CP24/30 CCI Consultation – Joint Response.

The CP24/30 CCI Consultation – Joint Response is accompanied by this Detailed Response prepared by the following members of the House of Lords and Market Participants, providing the detail to support the positions outlined in the CP24/30 CCI Consultation – Joint Response:

- 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 End 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
- Katya Gorbatiouk, Head of Investment Funds, London Stock Exchange
- Minesh Shah, Managing Director, Fund Management, InfraRed Capital Partners
- Nigel Farr, Partner - Herbert Smith Freehills LLP
- Richard Parfect, Portfolio Manager, Momentum Global Investment Management
- Tom Harris, Jefferies International Limited
- Tom Poynton, Executive Director, Baron & Grant Investment Management Limited
- William MacLeod, Managing Director, Commercial, Gravis Capital Management Ltd

The following Legal and Capital Market Experts have independently reviewed and endorsed this Detailed Response.

- Deborah Sabalot Deane, Victoria University/Te Herenga Waka, Wellington, New Zealand
- Dr Andreas Kokkinis, Associate Professor of Law, University of Birmingham
- Iris H-Y Chiu, Professor of Corporate Law and Financial Regulation, Faculty of Laws, UCL
- Konstantinos Sergakis, Professor of Capital Markets Law and Corporate Governance, School of Law, University of Glasgow
- Professor Iain Clacher, Professor of Pensions and Finance, University of Leeds
- Simon Gleeson (lawyer signing in a personal capacity)
- Dr Con Keating, Member, Bond and Fixed Income Forum, Chartered Institute of Securities and Investment

20 March 2025

Q1: Do you have any comments on our approach to applying the Consumer Duty to CCI product information?

(1) **Prescriptive Approach**

Although the FCA sets out its intention for the new framework to be more flexible and simpler in its approach than the current PRIIPs KID, the proposed core information requirements are highly prescriptive in terms of required fields, particularly around cost disclosure and risk indicator, which perpetuates, rather than addresses, many of the fundamental issues that LCICs experienced with PRIIPs and MiFID, and ironically is contradictory to an outcome approach encouraged by Consumer Duty principles.

A consequence of this is that the disclosures that the LCICs are being asked to make **do not meet the information needs of LCIC investors**, who have different information needs to that of an open-ended fund investor. Those disclosure requirements are already in existence for LCICs.

Two of the principles of consumer duty are **consumer understanding** and **consumer support**. It is therefore important to understand the needs of the LCIC investor and provide them with the information they want and need. The proposal as it stands at present does not meet those needs and instead will cause confusion.

(2) **Misleading Information**

For information to be useful it must have **proper context**. The current proposals do not meet consumer duty requirements, as some of the information that is required to be disclosed lacks purpose and context and is completely misleading. Some examples include:

- The **Summary Costs Illustration** is aggregating lots of different types of costs to create a total which is highly likely to mislead investors and potentially result in them making misinformed investment decisions. See **Response 21** for more detail.
- Proposing to include **pull through costs** into the ongoing charge is misrepresentative of charges. Pull through costs are not deducted from the costs of an investor's purchase. They are part of the investment decision which the investment manager has made in making an investment in that fund or LCIC. The proposal that tracker funds do not have to include such costs demonstrates that the FCA recognises that they inflate costs without justification and is contrary to the objective in Annex 3, para 7 wherein the CCI is supposed to allow 'firms offering retail investment products to compete on a level playing field'. This is not possible if one vehicle must

disclose misleading costs and another vehicle with a similar objective does not. See **Response 24** for more detail.

- Disclosing **transaction costs** beside ongoing costs does not recognise the capital nature of these costs related to investment activity and does not provide the customer any context around those transaction costs. This is borne out by the feedback from 2 retail investors (see **Appendix 1**)
- The methodology to calculate the **Risk Indicator** is too simplistic as it relies exclusively on past share price performance, thereby implying that past performance is the only metric to be considered when evaluating the risk of a LCIC. It is also too granular as a small movement on share price can move the score. The proposals compound the issue by sometimes requiring a subjective overlay, which would inhibit comparability. Risk scores can highly influence a retail customer's investment decision. Narrative risk disclosures are far more informative of the risks and will enable the customer to make a much more informed investment decision. See **Response 28** for more detail.

For information on LCIC expenses to be useful, they need to be disclosed in the right place, in the right context and provide the reader with useful and relevant information and presented in the report and accounts, interim results, factsheets and website.

Alternatively, to meet the needs of the LCIC investor, emphasis should instead be given to the publication of actual LCIC expenses through the Statement of Operating Expenses ('SOE'), giving them audited and useful information in a succinct one-page summary.

(3) **Entity Responsible for Consumer Duty**

The proposals did not clearly identify an entity responsible for the CCI compliance. We appreciate the FCA clarifying this point at the AIC / FCA CCI session in Edinburgh on 11 March that the Duty will remain with the AIFM.

Q2: Do you consider the proposed CCI regime could help distributors to assess value for overseas funds? Please explain why or why not.

The CCI regime over-emphasises cost comparisons at the expense of accuracy and product understanding.

An obvious consequence of requiring overseas funds to provide the information outlined in the CCI proposal will be that overseas manufacturers will view the CCI requirement as an additional barrier and cost to distributing their fund in the UK, further risking making **the UK an unattractive place to do business and reducing choice for UK investors**.

This approach is uncompetitive and harmful in relation to the UK capital markets, the UK consumer and the UK economy, especially in the current economic context.

Q3: Do you have any comments on the other considerations in Chapter 2, including ESG and Equality and Diversity considerations?

None.

Q4: Do you have any comments on the scope of products included in the CCI regime?

We **strongly disagree** that **Listed Closed-Ended Investment Companies (‘LCICs’) should be in scope of CCI.**

Our strong recommendation is that LCICs should be excluded from CCI, or ring fenced within the CCI regime with no disclosure obligations beyond those required in law and by other regulations and market listing rules. Failure to do so will be significantly damaging to the future of an investment vehicle that has served UK investors extremely well for over 150 years.

Below we set out the reasons why **LCICs should be excluded, or ring fenced within the CCI framework** and highlight the **implications** of LCICs being included in a cost disclosure framework. We will discuss each of these in detail in **section 1** and **section 2** respectively, before **outlining our proposal in section 3 and the benefits of that proposal in section 4**.

1. **The reasons why LCICs should be excluded from the CCI regime include:**
    a. Existence of a clear policy statement from Government when it amended the UK PRIIPs Regulation and the UK MiFID Organisational Regulation to remove LCICs both from PRIIPs formatted disclosure and from aggregation
    b. It perpetuates the previous issues around cost disclosure
    c. LCICs are stock market financial instruments not products
    d. The fact that all other listed companies are outside CCI
    e. This would impose double regulation on LCICs, whose disclosures are already governed by their own legislation and meet investor needs
    f. The need to remove excessive regulation to reignite economic growth

2. **The implications of imposing CCI regulation on LCICs and the provision of case studies to demonstrate these include:**
    a. Aggregation will continue to be a contributing factor to the sector’s wide discounts.

b. It creates an unlevel playing field between similar UK listed companies in different listing categories of the domestic market, causing market dysfunction.
c. It damages international competitiveness of UK LCICs
d. It has caused a collapse in capital raising for UK LCICs due to the UK's misleading approach to cost disclosure regulation.
e. Existential threat to the UK LCIC sector which makes up 36% of the FTSE 250 and 27% of the FTSE 350.

Explanation of Rationale for objection on Scope of CCI:

1. **Reasons why Listed Closed-Ended Investment Companies should be excluded from CCI**

(a) Existence of a clear policy statement from Government to remove LCICs from aggregation

In January 2024, 186 firms and 329 signatories responded to HMT consultation 'Draft Consumer Composite Investments (Designated Activities) Regulations 2024' urging the exclusion of LCICs from the CCI regime. The response was well received by HMT and in September 2024, HMT and the FCA jointly announced a statement of forbearance in relation to cost disclosure requirements, under which they would **exempt LCICs from the relevant EU derived PRIIPs and MiFID II Regulations.** This forbearance was quickly superseded by new legislation, and on 22 November 2024, The Packaged Retail and Insurance-based Investment Products (Retail Disclosure) (Amendment) Regulations 2024 came into force. In Regulation 3 there was an amendment to Commission Delegated Regulation (EU) 2017/565 of 25 April 2016, known as the 'MiFID Org Reg', which amended both Article 50 and 51 of the MiFID Reg Org to state that the requirements to disclose costs do not include *'any costs of manufacturing and managing shares in a closed-ended investment company that is UK listed'*. **This is the current law.**

In the explanatory memorandum published to accompany these Regulations paragraph 6.7 states '*Investment firms will no longer be required to disclose costs and charges relating to manufacturing and managing shares in closed-ended investment companies that are UK-listed when disclosing costs and charges* information *to clients pursuant to the MiFID Org Regulation'*.
It is also explained in paragraph 7.3 that this was a response to the HMT CCI Consultation in January 2024 and ***'This instrument therefore represents an immediate change in policy to address these concerns****, delivered through an additional and separate instrument.'*

On this basis, the Government clearly set out its policy choice to exclude these costs, and to remove LCICs from aggregation. There does not seem any basis for the FCA to reinstate aggregation in the CCI regime in the face of Government policy to the contrary.

This was fully aligned with the industry's position that was set out in the January 2024 response to the original CCI consultation.

(b) It perpetuates the previous issues around cost disclosure

The CCI proposals perpetuate the confusion of the previous PRIIPs and MiFID II cost disclosure regime, which required investors to be misleadingly presented with figures that implied that the costs of managing open- and closed-ended structures are directly comparable. Inclusion in the CCI cost disclosure regime would perpetuate this misguided objective of comparability of disclosure between entirely different structures, namely **LCICs** (a market instrument with a public listing and share price, distinct from NAV, and set by the collective view of the stock market) and **open-ended funds** (an investment product where the investor owns a share of NAV and pays ongoing charges out of that share of NAV).

(c) LCICs are stock market traded financial instruments not products

An **LCIC is a market instrument**, and the share price is determined by the market and reflects all market knowledge and information. The breadth of **relevant and useful information** available to the investor in an LCIC is much wider than what is proposed via the CCI regime disclosures, particularly given that there is already **specific strong and regulated transparency and analyst coverage from house brokers, and independent research companies**

LCICs are listed companies and consequently do not charge shareholders a 'fee' or 'cost' of ownership. Like all listed companies, LCICs incur expenses which are not paid by the shareholder, rather, they are reflected in the net asset value, which is regularly disclosed to the market, and are fully disclosed in the audited and published Annual Report and Financial Statements. These expenses are one of the many influencing factors on the market price of a share.

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. In this way they differ from units in an open-ended fund, which are 'reset' each day with the creation or cancellation of units and the generation of a new NAV. Units directly reflect the value of the underlying holdings, less the cost to the investor. 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 collective 'wisdom of the markets' is not available to unlisted products. This is a substantial protection mechanism for listed investments, but market reaction also needs to be understood, not hidden behind comparisons with unlisted vehicles.

Misleading cost disclosure reporting has undermined the market mechanism, driving unwarranted selling pressure based on a false comparison.

(d) We **do not believe** that a uniform disclosure regime ('one size fits all') covering all types of investment vehicles from mutual funds to LCICs aids consumer understanding. **The inferred exemption from CCI of all other listed companies**

The CCI legislation broadly defines a CCI as

> *(a) an investment,*
> *(b) a contract of insurance, or*

An LCIC is no different to a listed commercial company in this respect since no value or amount is payable to the investor by reference to anything other than the market price. In para 3.12, the FCA states that the

> '*proposed regime would apply to the retail distribution of securities by closed ended investment companies, such as investment trusts and venture capital trusts. We believe this will help **avoid the potential for consumer harm**, and **promote a well-functioning, healthy and competitive market**.'*

This statement seems to indicate **an exemption for all other listed companies** including those which directly compete with LCICs. **Any such exemption, or exclusion from additional rules, should include LCICs.**

In addition, within our response we will demonstrate how the current CCI proposal **will create consumer harm and will continue to erode the competitive environment** that had existed in the UK prior to the PRIIPs disclosure regime being introduced in January 2018.

(e) LCIC disclosures are already governed by their own legislation and meet investor needs

HMT has repeatedly stated its opposition to double regulation, yet the CCI proposals exhibit both duplication and additional regulatory creep over the already highly regulated LCIC sector.

There is no recognition in the consultation that LCICs are already governed by their own legislation. There is no legitimate case to cover LCICs with additional rules. The FCA have not consulted with LCICs from a point of view of understanding their structure.

LCICs are already subject to **strict** legal and regulatory restrictions including **disclosure** mandated in:

1. the Listing Rules.
2. the Disclosure Guidance and Transparency Rules.
3. the Market Abuse Regulations.
4. company law in the form of reports and accounts (the financial statements are prepared in accordance with Financial Reporting Standard 102 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts').
5. Prospectus Regulations; and
6. Other prominent governance and accountability controls via a Board of Directors, including AIC Code of Corporate Governance (2024) – which is endorsed by the Financial Reporting Council (FRC).

LCIC investors are provided with:

1. the company's interim report and **audited** annual report which are publicly available.
2. the daily NAV announced to the market.
3. the company' has a website with additional information.
4. the monthly company factsheet and the Statement of Operating Expenses ('SOE') is available on their website.
5. market announcements ('RNS').
6. additional performance measures to help investors to evaluate the LCIC including:
    - Discounts and premiums
    - Dividend yield
    - Net gearing
    - Ongoing charges ratio (LCIC expenses expressed as a percentage of the NAV)
    - Total return of both the share price and NAV

One of the differentiating features of an LCIC as compared to an open-ended fund is the independent Board subject to fiduciary duties, which acts to represent all shareholders and monitor the performance of the AIFM and investment manager if different. The importance of this key relationship was clearly

demonstrated in the recent actions taken by seven Boards to successfully defend their companies against the American activist, Saba Capital.

Producing information which conflicts with what is already produced will create consumer confusion, will misinform investment decisions and is neither helpful to the investor nor the LCIC. Rather than repeat here, we outline the issues on the individual proposals in the relevant responses and **urge you to look at the LCIC responses holistically** rather than through a siloed individual chapter or question lens.

The LCIC investor must be provided only with appropriate, relevant and useful information to inform their investment decisions and not have their investment decisions confused with misrepresented information.

We recommend that the Government and the FCA rethink these proposals based on a deeper consideration of the legislation already in existence that covers LCICs and the supervisory role of the Board.

(f) The need to remove excessive regulation to reignite economic growth

It is imperative in the current economic context that excessive layers of legacy EU regulation which have caused demonstratable market and economic harm, whilst failing to achieve their intended purpose of consumer protection, are removed and that further regulation is not imposed without justification.

The regulatory burdens of aggregated cost disclosures imposed on the UK LCIC sector over the past 3 years, partly as a result of previous Investment Association guidance on cost disclosure effectively becoming mandatory, represented a key barrier to the flow of investment into important areas of UK economic activity. Some of these sectors – infrastructure, energy infrastructure, health and other social infrastructure, tech, life sciences, and smaller and private companies in general – are particularly critical for reigniting economic growth. Whilst some of these barriers were removed last year, we are still experiencing barriers driven by market practices that became embedded during that time.

The current burdens are now also a significant barrier to a thriving active asset management industry in the UK which plays an important role in the overall health, liquidity and vibrancy of our markets, while being a vital source of capital for small and medium-sized companies.

2. **Implications of CCI on LCICs**

a. **LCIC sector wide discounts**

The shares of most LCICs trade at a discount to their NAV per share most of the time. However, the average LCIC discount (excluding 3i) is currently 15% (AIC, 6 March 2025) which is extremely wide by historical standards. There is extensive commentary from wealth managers and investors which confirms that misleading cost disclosure rules have created ongoing selling pressure in recent years, which has undermined demand for LCICs, prevented new fund-raising, damaged investor returns and caused billions of pounds of lost investment in UK businesses and growth.

This response wishes to stress that broader macro conditions are not the sole cause of the sector wide discounts. Market participants report very little support for LCIC's of all types, be they REITs, or companies investing in alternative assets or equities, and a demonstrable lack of buy side support, **due to reporting of costs.**

Misleading cost disclosures (PRIIPs and MiFID II and now CCI) have misrepresented LCICs, leading to market distortions and making LCICs less attractive.

Many LCIC investors, including wealth managers and advisers, who have been avid supporters of LCICs in the past, are emphatic that regulated disclosures which inflate the apparent costs of using LCICs, make it commercially unattractive to buy shares for their clients. These disclosures are also causing existing investors to sell LCIC shares. This is despite wealth managers believing that LCIC shares can deliver better returns than other options offering similar exposure. Please see the letter from Austen Robilliard, Interim CEO, IWP in Appendix 3.

Wealth managers are also very concerned that imposing CCI disclosures, and disseminating them through the distribution chain, provides misrepresented costs and poor information to investors and distorts competition. In turn this is creating a toxic cycle of lower demand and reduced liquidity, which will only continue, with investors not returning to the market until they have certainty that undue burdens and technical barriers to their investment are removed. If LCICs are not excluded, or ring fenced within CCI, it is uncertain whether the LCIC market will recover, and it is expected that it will perpetuate the further widening of discounts.

These persistent wide discounts to NAV have now attracted US activist shareholder interests to the UK LCIC sector given the opportunity to arbitrage the wide discount to NAV, **adding to the existential crisis to LCICs**.

The sector is already restructuring: 15% or 60 LCICs have left the sector reducing the total number from 391 to 331. LCICs have merged, relisted as commercial companies by internalising their management and consequently moved out of scope of cost disclosure regimes (**covered in 2(b**)), restructured into private funds or have been targeted by overseas arbitrageurs. Public or retail access to hard-to-reach asset classes is being rapidly diminished, denying investors choice and access to diverse of investment opportunities.

The 3-year disinvestment from LCICs has already caused degradation of the related UK advisory ecosystem and damaged the active investment management sector in this space, thereby further undermining UK competitiveness in this historically globally leading area of our capital markets.

It is **essential that LCICs are excluded, or ring fenced,** from all additional cost disclosure regulations including from CCI to enable the sector to recover by attracting back investors and reduce these wide discounts.

b. Unlevel playing field between UK listed companies in the domestic market

The inclusion of LCICs in PRIIPs and MiFID II and now CCI, but the exclusion of listed commercial companies has created an unlevel playing field and is **not** providing consumers with reliable comparable data.

There is **a need to re-establish this level playing field for domestic listed companies.** To achieve this LCICs must be excluded from CCI and retain their exclusion from MiFID II.

Case Study: Tritax Big Box vs Segro

This issue can be illustrated by exploring the current challenges facing the LCIC, Tritax Big Box ('**BBOX**') with its direct competitor, a commercial company, Segro ('**SGRO**').

BBOX is a UK Real Estate Investment Trust (REIT) which owns, asset manages and develops industrial logistics properties in the UK. As a **LCIC**, it is **externally managed,** and as a result, has **been subject to the PRIIPs and MiFID II cost disclosure requirements** (soon to be replaced by CCI).

SGRO is a UK REIT which owns, asset manages and develops industrial logistics in the UK and Europe. As a **listed commercial company**, it is an **internally managed,** commercial company, that **has not been subject to the PRIIPs and MiFID II cost disclosure** requirements and is not in the scope of CCI. Therefore, it is **not required** to make additional cost disclosures.

As public companies listed on the LSE, both BBOX and SGRO are subject to the same periodic disclosure requirements under the rules of the FCA, such as Listing

Rules, Disclosure Guidance and Transparency Rules, and subject to the Corporate Governance Code. Both BBOX and SGRO publish audited financial statements, interim and annual reports, and are governed by a board which consists of a majority of independent directors.

In table 1 below, we demonstrate the cost disclosure differences arising under PRIIPs. We acknowledge that under CCI the BBOX numbers may look slightly different due to the exclusion of costs to manage real assets and gearing costs, but BBOX will still have a cost disclosure requirement under CCI that listed commercial companies don't, which will make BBOX look more expensive to an investor than SGRO. Comparison of these two companies, based on this regulatory cost disclosure requirement, would mislead investors that BBOX is more 'expensive' to own than SGRO, consideration of any discount to its NAV would likely produce a very different conclusion. However, investors are not properly informed about the important elements of such an investment decision if they are directed to compare a zero cost for managing SGRO, with a supposed 1.5% 'cost' of BBOX, when in reality the investor does not directly pay these costs in either case.

Table 1

Name	Status	UKLA	AIF	PRIIPS	Disclose Ongoing Charge	Transaction Costs	Total Costs
SGRO	REIT	Commercial	No	No	-	-	-
BBOX	REIT	Closed-end Fund	Yes	Yes	1.50%	0.09%	1.59%

An additional example of the inappropriateness of such misleading comparisons between costs of a LCIC, with an operating company involved in the same type of business, but which has much greater company-specific risks, arises when you compare SGRO and BBOX using the real estate industry standard definition of cost disclosure, the European Public Real Estate Association ('EPRA') Cost Ratio. This is an accepted industry standard measure of cost efficiency of a real estate company and is calculated by dividing all administrative and operating costs by gross rental income, (as is applied in the final column of table 2), it gives a different perspective.

Table 2

Name	Status	UKLA	AIF	PRIIPS	Disclose Ongoing Charge	Transaction Costs	Total Costs	EPRA Cost Ratio
SGRO	REIT	Commercial	No	No	-	-	-	20.20%
BBOX	REIT	Closed-end Fund	Yes	Yes	1.50%	0.09%	1.59%	13.90%

BBOX is **materially cheaper** than SGRO at 13.90% vs 20.20%.

An investor relying on the FCA approved cost disclosures would reach the wrong decision based on the cost effectiveness of the two companies.

PRIIPs, and now the proposed CCI will require BBOX's manufacturers to produce disclosures that will likely misinform investors on the actual costs of holding the company's shares, to their potential financial detriment. This will also likely reduce

demand for the shares of BBOX to the benefit of listed commercial companies, such as Segro, and to the detriment of existing shareholders. This is not just an isolated example. **Below is a table** that provides further examples of respective groups of listed companies, which have been subject to additional cost disclosure requirements until recently (PRIIPs but moving to CCI in the future), and their peer competitors that have similar approaches and investment strategies but no requirement to produce additional cost disclosures.

Sector	Was subject to PRIIPs/MiFID and subject to CCI	Not subject to PRIIPs/MiFID or CCI
Property – UK Commercial	Tritax Big Box REIT PLC Urban Logistics REIT PLC	Sergo PLC (REIT) London Metric Property PLC
Renewable Energy Generation	Greencoat UK Wind PLC The Renewable Infrastructure Group Next Energy Solar Fund Bluefield Solar Income Fund Foresight Solar Fund	Drax Group PLC SSE PLC
Private Equity	HG Capital Trust plc Apex Global Alpha Oakley Capital Investments Syncona	IP Group PLC
Property – UK Social / Residential / Student	The PRS REIT PLC Triple Point Social Housing REIT plc Residential Secure Income PLC	Unite Group PLC Empiric Student Property PLC
Social & Digital Infrastructure	BBGI Global Infrastructure S.A. HICL Infrastructure PLC International Public Partnerships Limited	Assura PLC Primary Health Properties PLC
Leasing / Charters	Tufton Oceanic Assets Limited Taylor Maritime Investments Limited	Hapag Lloyd AG Maersk

The **table below** further demonstrates that the internally managed listed real estate companies are not necessarily cheaper to operate than externally managed listed real estate companies.

Stifel Research UK Real Estate Companies

STIFEL

Company	Internally / Externally managed	Market Cap (£m)	Premium/(Discount) to adj. NTA (calendarised) (%)	Dividend yield (%)	EPRA cost ratio (%)
Assura	Internally	£1,278m	(21.2)%	8.5%	11.7%
Big Yellow	Internally	£2,309m	(8.7)%	3.9%	36.1%
British Land	Internally	£3,798m	(34.2)%	5.9%	16.4%
Derwent London	Internally	£2,358m	(33.5)%	3.9%	26.6%
Empiric	Internally	£591m	(28.4)%	4.2%	44.6%
GPE	Internally	£1,208m	(33.4)%	2.6%	51.4%
Hammerson	Internally	£1,390m	(28.7)%	5.6%	41.1%
Land Securities	Internally	£4,507m	(31.7)%	6.7%	20.3%
LondonMetric Property	Internally	£3,849m	(6.1)%	6.4%	11.6%
Picton	Internally	£376m	(30.0)%	5.4%	23.0%
Primary Health Properties	Internally	£1,267m	(12.2)%	7.3%	10.0%
Safestore	Internally	£1,705m	(22.8)%	3.9%	45.6%
SEGRO	Internally	£10,330m	(16.6)%	3.9%	24.0%
Shaftesbury Capital	Internally	£2,416m	(31.6)%	2.6%	37.8%
Supermarket Income REIT	Externally	£854m	(22.5)%	8.9%	14.7%
Target Healthcare REIT	Externally	£521m	(25.1)%	7.0%	18.0%
Triple Point	Externally	£242m	(46.5)%	8.9%	20.6%
Tritax Big Box REIT	Externally	£3,356m	(27.0)%	5.8%	12.5%
TR Property	Externally	£1,014m	(8.1)%	4.3%	n/a
UNITE	Internally	£4,189m	(14.2)%	4.3%	37.4%
Workspace	Internally	£1,049m	(34.1)%	5.3%	31.5%
UK average		**£2,315m**	**(24.6)%**	**5.5%**	**26.7%**
EPRA cost ratio average - Externally managed					**16.5%**
EPRA cost ratio average - Internally managed					**29.3%**

Internally managed REITs

Externally managed REITs

Source: Stifel Research as at November 2024

A growing list of companies have left (or are looking to leave) LCIC status to convert to a listed commercial company, and leave the cost disclosure debate on CCI altogether, with internal management and an executive Board. LCICs with an indefinite life may benefit from fresh thinking and broader capabilities that reflect changes in market opportunities over time.

Companies that can internalise management will benefit from

i. Direct cost reduction from eliminating layers of regulation.
ii. Improved marketability to a wider range of investors due to no additional cost disclosure (such as CCI)
iii. Exclusions from all retail cost disclosure obligations and bring them back in line with the rest of the £1.5 trillion global markets for REITs.

It should be noted that the operating cost of running these REITs remains; the costs are directly incurred rather than outsourced. It cannot be correct that a cosmetic difference of the business model of identical companies should have such distortive ramifications on how a company is regulated and defined. As a sector we are concerned that this market distortion is not being addressed and perpetuates the disadvantages to LCIC sector.

Although none of the issuers have stated that cost disclosure drove their decision to move from LCIC status to a listed commercial company, this fact cannot be ignored, and we suspect other LCICs are working on similar schemes to move from LCIC status to a listed commercial company. This is not good a good outcome for consumers, LCICs or the growth of the UK's capital market. It should be noted that there are significant commercial considerations including false economies and a loss of manager's know-how, which may prove economically insurmountable.

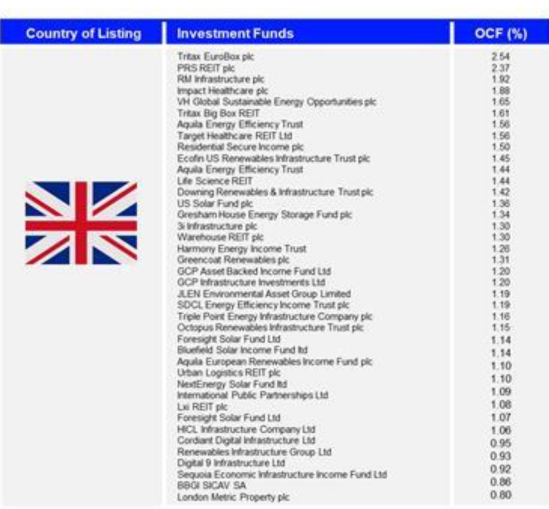
c. **Uncompetitive position for LCICs in the International Market**

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

One of the main reasons for this is that the UK is the only jurisdiction that classifies a listed company as a product for disclosure purposes.

This approach places the UK in a distinctly uncompetitive position vs other developed markets, like the US and Switzerland where no listed company is classified as a product for disclosure purposes and comparability of LCICs and open-ended funds is not pursued.

By classifying 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 (see table below)



Country of Listing	Investment Funds	OCF (%)
	Tritax EuroBox plc	2.54
	PRS REIT plc	2.37
	RM Infrastructure plc	1.92
	Impact Healthcare plc	1.88
	VH Global Sustainable Energy Opportunities plc	1.65
	Tritax Big Box REIT	1.61
	Aquila Energy Efficiency Trust	1.56
	Target Healthcare REIT Ltd	1.56
	Residential Secure Income plc	1.50
	Ecofin US Renewables Infrastructure Trust plc	1.45
	Aquila Energy Efficiency Trust	1.44
	Life Science REIT	1.44
	Downing Renewables & Infrastructure Trust plc	1.42
	US Solar Fund plc	1.36
	Gresham House Energy Storage Fund plc	1.34
	3i Infrastructure plc	1.30
	Warehouse REIT plc	1.30
	Harmony Energy Income Trust	1.26
	Greencoat Renewables plc	1.31
	GCP Asset Backed Income Fund Ltd	1.20
	GCP Infrastructure Investments Ltd	1.20
	JLEN Environmental Asset Group Limited	1.19
	SDCL Energy Efficiency Income Trust plc	1.19
	Triple Point Energy Infrastructure Company plc	1.16
	Octopus Renewables Infrastructure Trust plc	1.15
	Foresight Solar Fund Ltd	1.14
	Bluefield Solar Income Fund ltd	1.14
	Aquila European Renewables Income Fund plc	1.10
	Urban Logistics REIT plc	1.10
	NextEnergy Solar Fund ltd	1.09
	International Public Partnerships Ltd	1.08
	Lxi REIT plc	1.07
	Foresight Solar Fund Ltd	1.06
	HICL Infrastructure Company Ltd	0.95
	Cordiant Digital Infrastructure Ltd	0.93
	Renewables Infrastructure Group Ltd	0.92
	Digital 9 Infrastructure Ltd	0.86
	Sequoia Economic Infrastructure Income Fund Ltd	0.80
	BBGI SICAV SA	
	London Metric Property plc	

Country of Listing	Comparable Investment Vehicles	OCF (%)
	Assura plc Big Yellow Group plc Derwent London plc Helical plc Grainger plc Safestore Holdings plc SEGRO plc Mountview Estates plc Primary Health Properties plc Unite Group plc Workspace Group plc	0%
	Boralex Inc Brookfield Renewable Corp Innergex Renewable Energy Inc Northland Power Inc Dream Industrial REIT	
	Clearway Energy Inc Hannon Armstrong Sustainable Infrastructure Capital Inc Nextera Energy Partners LP Prologis Inc American Tower Corp Crown Castle International Corp Digital Realty Trust Inc Atlantica Sustainable Infrastructure plc	
	Corporacion Acciona Energias Renovables SA ENCAVIS AG ERG SpA EDP Renovaveis SA Neoen SA Nibe Industrier AB	
	Keppel DC REIT Mapletree Logistics Trust	
	Meridian Energy Ltd Goodman Group	
	CRE Logistics REIT Inc Mitsui Fondusan Logistics Park Inc Nippon Prologis REIT Inc	

It is this unique regulatory interpretation of EU legislation imposed in the UK by its interpretation of PRIIPs and MiFID Org Reg that has brought about the serious disruption to the LCIC market over the last three years.

Case Study: Implications of classifying UK LCICs as 'products' for disclosure purposes

Aberdeen manages two Indian equity LCICs.

- abrdn New India Investment Trust PLC (ticker '**ANII**') listed on the London Stock Exchange and subject to disclosure requirements.
- The India Fund Inc. (ticker '**IFN**') listed on the New York Stock Exchange.

These two companies

- have the **same** investment process
- are managed by the **same** investment team at Aberdeen; and
- have broadly the **same** holdings.

The **US listed company has a higher expense ratio**, yet according to Morningstar data at 28 February 2025:

- the US company IFN share price has a 12-month average discount to NAV of 4.9%.
- the UK company ANII is trading has a 12-month average discount to NAV of 17.9%.

That is **13 percentage points difference** in their 12-month average discount to NAV.

Moreover, the **US company raised $110 million in additional, new capital** at a discount to NAV for the Indian equity strategy in 2024 due to strong demand from investors whereas the **London sister company bought back £28 million of equity** during 2024 due to lack of demand and its wide discount to NAV.

This stark contrast demonstrates how uncompetitive the UK has become for LCICs.

d. Collapse in capital raising due to UK Only Misleading Cost Disclosure Regulation

Market participants report very little support for LCICs of all types, be they REITs, companies investing in alternative assets or equities, and demonstrable lack of buyside support, due to excess reporting of costs.

In January 2018, with the introduction of MiFID II, distributors were obliged to add LCIC expenses to client facing disclosures, in the same form as open-ended investment products - as if they were a direct cost to the shareholder, effectively double counting company expenses that are already reflected in the market determined share price.

In January 2022, the UK Investment Association issued guidance to its members, with the compliance deadline of **June 2022**, setting out the requirement for institutional investors to **publish an aggregated cost figure** that included company expenses of any underlying LCIC.

This requirement disregarded that LCICs are owned via stock market traded shares with all internal expenses already reflected in both their NAV and share price, which are regularly disclosed to the market. The NAV is one of the many influencing factors on the market price of a LCIC share. The resulting aggregated cost figure overstates investors' reportable costs and has therefore **rendered LCIC shares unattractive as an asset class, making them look artificially expensive.**

The ensuing market and economy-wide outcomes have included an abrupt drop in demand for these shares, unprecedented levels of discounts for well performing portfolios over prolonged periods of time, no IPOs and minimal follow-on offerings (whilst other equity raising has continued), no capital flow into underlying sectors of the economy, with speculative short-term investors seeking to acquire deeply undervalued assets.

This is clearly evidenced by the almost immediate cessation of fund raising by companies in the LCIC sector, despite other equity raising continuing.

Whilst not all discounts were driven by the IA guidance, the guidance compounded an already poor market environment for LCICs, and the real impact can be seen by the lack of IPOs or follow-on offerings by LCIC vs other equities, as well as limited UK recovery vs other markets like the US, as evidenced in 'The India Fund Inc.' example above. Multi-asset investors continue to report outflows specifically from funds holding LCICs vs those that hold non-LCIC equities, despite positive LCIC NAV returns and asset sales at or above NAV. The persistence of the discounts is out of line with other periods of crises. Furthermore, NAVs have had a long period of time to adjust to the new higher interest rate regime, which is what has happened over the past 3 years. Indeed, in the recent reporting seasons there have been growing examples of increased NAVs, as they have already reflected higher interest rates and are now benefitting from positive influences from other factors, such as operational performance. The fact that discounts remain close to all-time wides indicates that there is another significant factor at play. In the situation of broader macro uncertainty, we cannot afford not to fix a factor that is within our gift to.

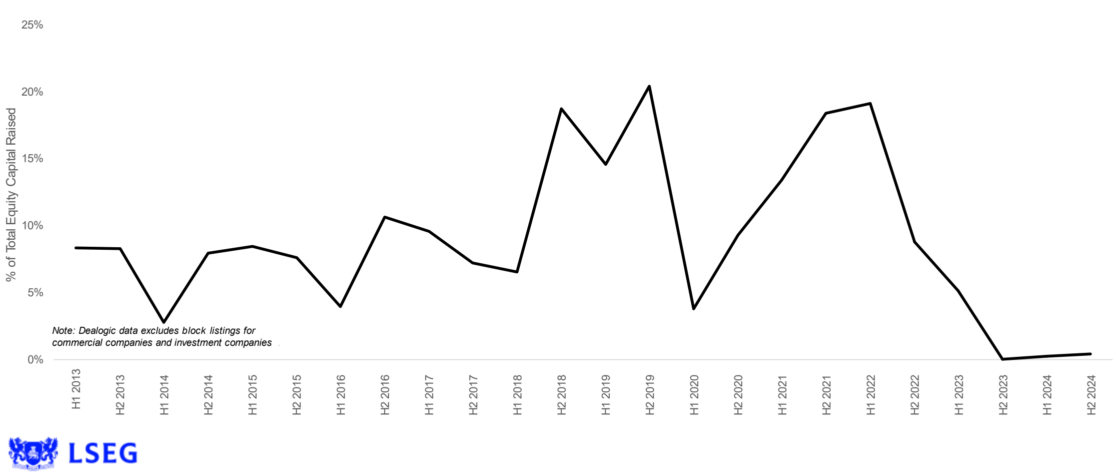
The **bar chart below** demonstrates that capital raised by LCICs since 2022 has collapsed from an average of £4.2billion every six months over the 9-year period of 2013-21 to negligible levels from 2022 to the current date according to London Stock Exchange Group ('LSEG') data. Much of the capital raised in the last three years before collapse was only invested in UK infrastructure and UK real estate.

The unintended consequences?

Source: London Stock Exchange, AIC, Dealogic. January 2025. Notes [1] Excluding 3i Investment Trust.

CORPORATE

Investment Companies as % of Total Equity Capital Raising, 2013 -2024



Source: Dealogic, January 2025.

By fund

Ticker	Fund	Sub sector	Capital raised (£m) Primary	Secondary	Total
HICL	HICL Infrastructure	PPP Core	250	2414	2664
INPP	International Public Partnerships	PPP Core	300	2191	2491
3IN	3i Infrastructure	Mid Market	700	868	1568
JLIF	John Laing Infrastructure	Mid Market	270	825	1095
GCP	GCP Infrastructure Investments	Infrastructure Debt	40	840	880
BBGI	BBGI Global Infrastructure	PPP Core	212	622	834
UKW	Greencoat UK Wind	Renewables	260	2519	2779
BSIF	Bluefield Solar Income	Renewables	130	536	666
TRIG	Renewables Infrastructure Group	Renewables	300	2431	2731
FSFL	Foresight Solar	Renewables	150	489	639
JLEN	JLEN Environmental Assets	Renewables	160	509	669
NESF	NextEnergy Solar	Renewables	86	499	584
SEQI	Sequoia Economic Infrastructure I	Infrastructure Debt	150	1263	1413
GRP	Greencoat Renewables	Renewables	229	829	1058
GRID	Gresham House Energy Storage	Energy Efficiency	100	551	651
GSF	Gore Street Energy Storage	Energy Efficiency	39	485	524
SEIT	SDCL Energy Efficiency Income Tr	Energy Efficiency	100	797	897
AERI	Aquila European Renewables - €	Renewables	131	366	496
USF	US Solar Fund - $	Renewables	153	245	398
ORIT	Octopus Renewables Infrastructur	Renewables	350	224	574
RNEW	Ecofin US Renewables Infrastructu	Renewables	91	11	102
DORE	Downing Renewables & Infrastruc	Renewables	123	68	190
TEEC	Triple Point Energy Efficiency	Energy Efficiency	100	0	100
GSEO	VH Global Sustainable Energy Opp	Mid Market	243	192	435
AEET	Aquila Energy Efficiency - £	Energy Efficiency	100	0	100
CORD	Cordiant Digital Infrastructure	Mid Market	370	386	756
DGI9	Digital 9 Infrastructure	Mid Market	300	605	905
PINT	Pantheon Infrastructure	Mid Market	400	0	400
HEIT	Harmony Energy Income	Energy Efficiency	210	0	210
ROOF	Atrato Onsite Energy	Renewables	150	0	150
AEIT	Asian Energy Impact	Renewables	99	29	128
Total			**6,294**	**20,792**	**27,086**

By Sector

	Capital raised (£m) Primary	Secondary	Total
PPP Core	762	5,227	**5,989**
Mid Market	2,283	2,875	**5,158**
Infrastructure De	190	2,103	**2,293**
Renewables	2,410	8,754	**11,164**
Energy Efficienc	649	1,833	**2,482**
	6,294	**20,792**	**27,086**

By year

	Capital raised (£m) Primary	Secondary	Total
2006	550	0	550
2007	700	0	700
2008	0	304	304
2009	0	121	121
2010	310	300	610
2011	212	405	617
2012	0	842	842
2013	840	932	1772
2014	246	945	1191
2015	150	1205	1355
2016	0	1993	1993
2017	229	2135	2364
2018	239	1019	1258
2019	633	2747	3380
2020	314	2262	2576
2021	1872	3225	5097
2022	0	2180	2180
2023	0	166	166
2024	0	11	11
	6,294	**20,792**	**27,086**

e. Existential threat to UK LCIC sector

Ultimately, all the above factors which have damaged the LCIC sector are creating a real existential threat to the future of the investment trust and REIT sector in the UK. This has been a long-standing 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 which has delivered exceptional long-term returns to patient, loyal investors in many LCICs and also brought investment capital into the London markets. The sector is a mainstay of the Scottish financial landscape but also comprises nearly a third of FTSE250 companies. Increasing buyout activity, share buybacks, wind-ups and hostile takeovers have already led to significant weakness and shrinkage among these companies. Continuing to force additional, inappropriate regulations on the sector will add to the existential risks to its survival and deprive companies of permanent investment capital.

3. Our proposal

LCICs are fully regulated under the Listing Rules, this includes disclosure obligations, which is the area of overlap with the proposed CCI regime, not to mention company law.

The Listing Rules have been deemed to be comprehensive from the investor perspective, as is demonstrated by the continued growth of this area of the market up **until 3 years ago.**

Any further disclosure that would benefit consumer understanding could be addressed in a pre-sale disclosure document that aligns with the AIC's methodology and surfaces relevant information on internal LCIC expenses from annual reports,

including asset management and administration fees. LCICs do not have to be labelled as CCIs for the purpose of producing this disclosure.

If the FCA's objective is to revive the sector that has historically delivered capital at scale into productive assets, there are two available solutions.

1. **Exclusion of LCICs from the CCI regime** with immediate effect (Preferred option); or

2. **Ring fence LCICs within the CCI regime** with immediate effect, with **no additional rules or disclosure obligations** over the existing market rules as outlined in 1(d) above and relevant industry-driven standards such as the **Statement of Operating Expenses** ('SOE') which has been developed by participants from across the industry.

This approach should also be replicated in the FCA's approach to MiFID II disclosures.

The rate of the sector degradation to-date, the economic priorities, as well as a clear position expressed by investors on what is needed to restore investor demand, all call for **immediate action.**

4. **Benefits of our proposal**

Excluding or ring fencing LCICs from CCI would return the sector to the pre-2018 position. This would lead to the following benefits.

1. The consumer will continue to be served with the strict disclosures mandated in legislation outlined in 1(d) above. These disclosures have served the investor well in the past and will continue to do so in the future. They provide useful and relevant information for their investment decision making.

2. Institutional, wealth manager and adviser investors would be attracted back to the sector which in turn will narrow discounts which will benefit the investor. It will also mean the clients of the wealth manager and adviser investors will once more be able to benefit from the opportunities provided by LCICs. Separately, it would also make the UK LCIC less attractive for arbitrageurs.

3. It will reinstate a proper competitive environment and enable LCICs to once again fairly compete against their peer listed companies.

4. LCICs would return to having a competitive position in the international market and support making the UK an attractive place to do business, leading to economic growth.

5. This would reinvigorate UK capital raising and help reinstate the UK as a prominent market to raise capital bringing opportunities to UK investors.
   For 156 years, the LCIC sector has been a showcase of the impact of the UK's markets spanning well beyond the Square Mile. It has been known for delivering long-term capital into new areas of growth where long-term capital is required, with over £80 billion raised over 10 years to 2022, serving our ambitions to **accelerate energy independence, jumpstart regional growth, fuel innovative scaleups and upgrade critical infrastructure.**

   Furthermore, with the anticipated shift in pension capital allocations, LCICs present **an opportunity for capital pools to boost their investments in productive assets and other promising areas of private markets,** with the benefits of liquidity, governance and transparency of a LCIC structure.

   LCICs are an important market instrument to facilitate and achieve UK economic growth plans.

Q5: 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?

LCICs are subject to company law and listing rules. The CCI consultation proposes to add a third layer of regulation and disclosure – disclosure which is incorrect and misleading. It is unnecessary and burdensome and will deter investors and therefore capital flows into the underlying areas of economic activity that are crucial for reigniting economic growth.

Q6: Do you agree with our proposal to allow optionality 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.

Q7: 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.

LCICs are listed companies and, therefore, reference to 'distribution,' which applies to products such as open-ended funds, is misleading. Listed company shares are marketed.

That said, the Board and their AIFM should be entitled to decide whether ownership of LCIC shares is appropriate for retail and/or professional investors.

Ownership of certain LCICs listed on the Specialist Fund Segment of the London Stock Exchange is restricted to appropriately experienced and qualified investors. No further restrictions are required.

Q8: Do you agree with our proposed transitional provisions for moving to the CCI regime? If not, please explain why.

We **strongly disagree** with the proposed transitional provisions for moving to the CCI regime and were pleased to hear the comments from the FCA panel in Edinburgh on 11 March 2025 which implied the timetable was being reviewed.

The last 18 months have seen a high-profile public debate over LCIC disclosures. The forbearance and subsequent legislative changes to remove LCICs from disclosure requirements brought only short-lived relief, with the whole issue being resurrected again with the publication of CP24/30 in December 2024.

The confusion currently damaging the LCIC sector is unsustainable and must resolved as a matter or priority to address this existential threat affecting the LCIC sector.

The two options 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 legislation as outlined in **Response 4**. We recognise that this will require a change to legislation.

(2) Ring fence LCICs

Within the CCI regime, **ring fence LCICs** and then specify that no disclosure obligations apply to LCIC shares beyond those required in law, and by other regulations and market listing rules. This position should be replicated in its approach to MiFID cost disclosure. Adopting this approach in relation to LCICs has precedent in the decision to provide a temporary 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 commercial company securities.

As well as the information and disclosures that the LCIC must produce by law, they would continue to provide the Company Factsheet, and some form

of Statement of Operating Expenses (‘SOE’) as proposed and prepared by parts of the industry.

The market requires certainty and accuracy. A delay to the outcome creates confusion and a diminishes trust amongst investors. We urge the FCA to make an early policy statement setting out its intention.

Separately for the wider proposals, the FCA is proposing that firms may follow either the CCI rules or the assimilated PRIIPs or UCITs requirements as they apply immediately before their repeal. To help all parties across the value chain, many of whom service many firms, an actual implementation date would help facilitate an aligned and coordinated implementation approach across the industry. Allowing different parties to apply the CCI requirements through the transition period will cause confusion and operational challenges and issues and will in effect be wasting valuable money and resources dealing with an uncoordinated approach. It is best that the industry is coordinated and working towards one date.

Q9: 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.

We **strongly disagree** with the proposed timeline for closed-ended investment companies. Our primary argument is that LCICs should be out of scope of the CCI regime, so the timeline become irrelevant, other the sector requires this to be addressed as soon as possible to prevent any further harm or detriment.

The sector has been severely impacted by confusion and delay. The forbearance and SI issued by the FCA and HMT in Autumn 2024 was helpful, but the uncertainty conveyed in the CCI consultation has created further confusion for distributors, notably retail platforms, and they are unwilling to update their systems, due to the uncertainty of the outcome of this consultation. This means that some retail platforms are currently configured to provide incorrect information to retail investors, modelled on the treatment of open-ended funds.

The CCI consultation’s stark U-turn from Government changes has unsettled investors who require certainty to make investment decisions.

A quick resolution is in the best interests of all investors.

We urge the FCA to consider the two options proposed in Response 4 and Response 8: namely

(1) Exclusion of LCICs from CCI
(2) Ring fence LCICs within the CCI regime with no additional disclosure requirements

and make an early policy statement on its intentions and clear interim measures.

Q10: Do you agree with our approach, including how responsibility is allocated across the distribution chain? If not, please explain why, and how you think responsibilities should be allocated.

The CCI consultation proposes to identify the LCIC as an unauthorised manufacturer. **An LCIC is not a manufacturer. It is a listed company.**

The introduction of the CCI regime **must not create any potential for LCICs to be identified as unauthorised manufacturers** which could be subject to any additional regulation (see **Response 4** and **Response 18** for a full discussion). In the event LCICs remain in scope of CCI, the appointed AIFM should be recognised as the 'manufacturer' and remain the regulated entity responsible for ensuring compliance with regulatory requirements.

For open-ended funds we agree that the manufacturer should be responsible for the product summary.

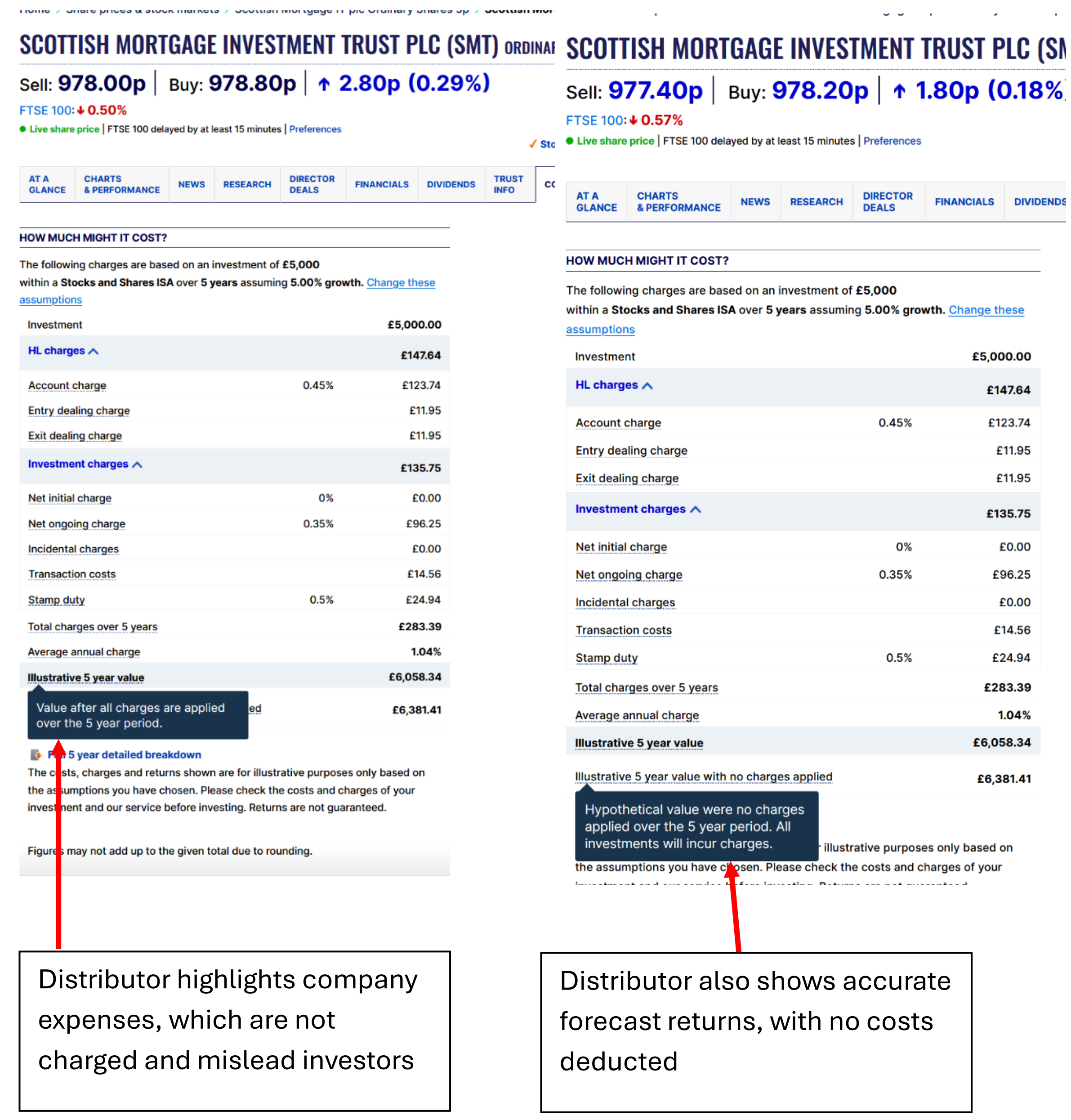
We have concerns about distributors being able to tailor the information and present it differently to their clients / customers. These include:

1. For many companies, there will be existing legal agreements with distributors that do not permit distributors to change the collateral prepared by the manufacturer (i.e. AIFM). There will also be changes to the respective roles and responsibilities of both parties which will need to be reflected in updated legal agreements. Making these changes will be a very time consuming and expensive exercise, whilst adding zero value or additional benefit.
2. The proposal states that the distributor must consult with the manufacturer about any changes they wish to make to core data. Considering the volume of LCICs and products available and the number of distributors distributing these LCICs and products, that could create a lot more interactions, which will require resources, time and money to support.
3. If a distributor presents data differently and it does not present the LCIC correctly, who is responsible? And if the LCIC is unfairly or incorrectly misrepresented this could also lead to reputational risk for that LCIC or its AIFM.
4. Increased costs for the manufacturer will only lead to increased expenses for the LCIC, which will eventually be borne by the investor potentially through a decreased dividend yield and / or the market determining a lower share value, and increased costs for the distributors and advisers will eventually be borne by the consumer through higher charges.
   We have seen distributors present summary cost illustration tables wherein they deduct the operating costs of an LCIC from the share price providing a

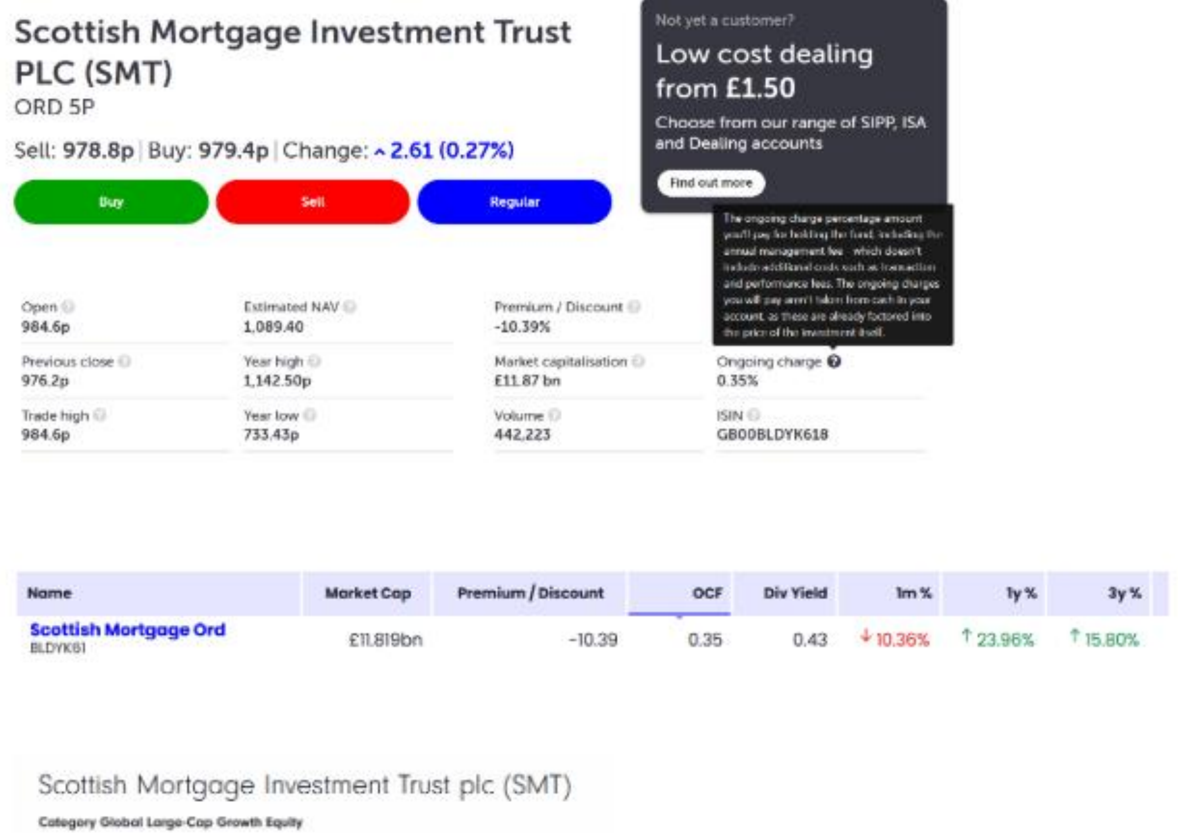
financially illiterate illustration of the alleged costs of ownership of a share in a LCIC.

Below we have included a range of examples of misleading and incorrect investor disclosures made by distributors.

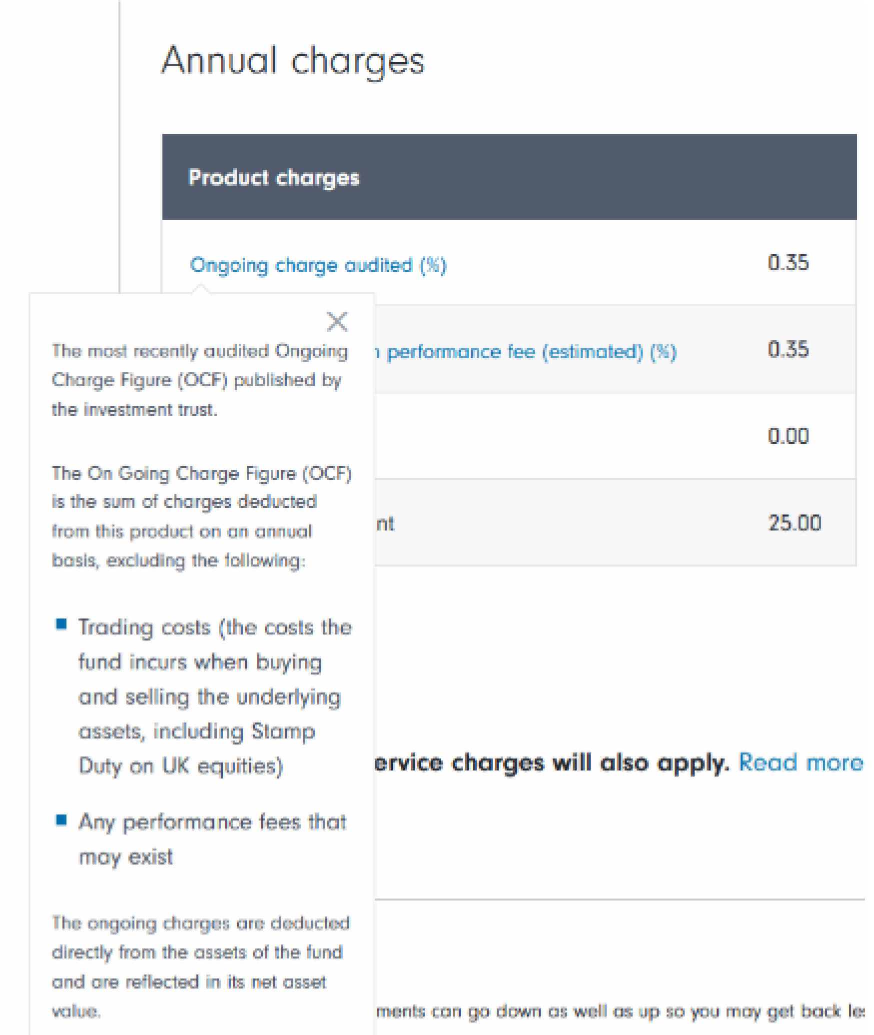
Platform A's message to an investor in the shares of Scottish Mortgage Trust that they should expect to suffer a reduction in the value of their shareholding of £283.39 as a result of the ongoing costs of managing the portfolio. This shows a fundamental misunderstanding of the cost figures being produced. The platform in question has refused to adjust their presentation despite repeated pleas to do so.



Platform B's explanation of the role of costs is extremely confusing: the statement in the black box in the illustration below states '***the ongoing charges you will pay aren't taken from cash in your account as these are factored into the price of the investment.***'



In the example below, Platform C notes reference trading costs in the explanation of the Ongoing Charges Ratio. While the treatment is correct, the description is very confusing.



Q11: 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 **do not agree** with the core information that is required to prepared.

A LCIC already provides relevant regulated and unregulated information an investor in a LCIC requires through the publication of:

- the company's audited annual report, financial statements and interim report which are publicly available.
- the daily NAV announced to the market.
- discount history.

- the company’s website and regular factsheet and Statement of Expenses.
- market announcements (‘RNS’).

Providing misrepresented or irrelevant information will only confuse the investor.

The CCI proposal seems to be overly focused on ‘one stop’ comparisons across the entire continuum of investment vehicles and product types. It does not appreciate that grouping investment vehicles and product types, followed by comparison within those sub-groups is a more useful route to take.

The unique character and properties of particular investment vehicles and product types should be given exposure at an early stage. In the context of deciding between a mutual fund or a LCIC, it is important that the differences are understood.

One of the key attractions of LCICs is the income stream that they provide to investors, and the dividend yield is a key performance metric for LCIC investors. However, this key feature of a LCIC has not even been considered in the proposals. Similarly, another important performance metric is the LCIC premium or discount, but there is very little consideration given to this.

LCICs are not manufactured and the intention to create a ‘costs based’ parallel between a fund and a company is misleading.

LCICs are the original UK investment vehicle dating back to 1868 having market set price and premium / discount indicators that have served well since that time. Mutual funds were invented in the US (in 1924) and have neither the protection, transparency or access to the collective ‘wisdom’ given by public market price information, nor analyst research nor shareholder rights or independent boards. These differences and listed company protections cannot be distilled into cost comparisons.

It is inappropriate for LCICs to calculate and publish ‘costs’ which are not charged to the shareholder in a format where the reasonable person could conclude that these amounts would be deducted from the value of their initial investment. However, it is correct that this information is published for open-ended products and funds.

LCICs have expenses, which are published in the regulated audited company Annual Report and Financial Statements. A proposal has been put forward to create a document, referred to as a Statement of Operating Expenses (SOE) in which these expenses can be shared with both existing and prospective shareholders. The SOE has been trialled by a number of LCICs and has received positive feedback.

Expenses should not be confused with costs to investors.

Specific feedback on the core information requirements is set out in the relevant responses.

The role of consumer testing of core information requirements

We note that the FCA is carrying out consumer testing on their proposals. However, we urge the FCA to ensure that the testing it carries out includes sophisticated retail investors and does not just include retail investors. These proposals have huge implications on all investors and therefore it must ensure that it engages with institutional investors, wealth managers and advisers and other professional investors. Only to look at this through the retail lens will likely lead to poor outcomes for all market participants, including retail investors.

We also urge the FCA to acknowledge that there are different types of retail investors. Retail investors who are investors in LCICs have specific information needs that are different to retail investors of open-ended funds.

We also very concerned that the FCA's prior assumptions around cost disclosure, particularly the presumed benefits of aggregating expenses of different types, will inform how it commissions and uses the results of consumer testing.

The FCA should seek to create disclosures which better inform consumers, not ones which reinforce views which may be misplaced.

As was highlighted at the meeting in Edinburgh on 11 March 2025, it should also be borne in mind that just because respondents say that they need / want particular data does not necessarily mean that the information is helpful – the example cited was the summary risk indicator providing a single figure for risk which was not tailored to the investment horizon of the investor.

Q12: 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.

Our primary concern is that we have evidence of distributors misrepresenting the information from LCICs (see **Response 10**). We are therefore reluctant to permit distributors to reproduce data without very strict regulatory oversight.

Currently the AIFM provides LCIC data to distributors through the use of EMT. We recognise that EMT is an industry solution to a regulatory requirement rather than a regulated mechanism. Going forward, the success of EMT (or equivalent solution) will depend on the service provider and the industry working together to **ensure that it is not restrictive and is flexible enough** to enable the AIFM to include the additional information that is relevant to LCICs.

Q13: Do you agree with our proposal that manufacturers should be required to make their underlying product information machine-readable? If not, please explain why.

As described in **Response 12**, AIFMs already provide information on the LCIC to distributors in a machine-readable format, using EMT.

The continued use of EMT will rely on the service provider and the industry to ensure that this remains flexible enough to accommodate the specific information needs of LCICs.

Q14: Do you agree that manufacturers should be responsible for producing a product summary? If not, please explain why.

For open-ended products, we agree that manufacturers should produce a product summary.

The AIFM currently prepares and publishes information for the benefit of shareholders' understanding, such as a factsheet and the Statement of Expenses ('SOE') referred to above in **Response 11** above. The AIFM should be expected to continue to do produce these relevant documents.

Q15: 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.

(1) Proposed requirements

LCICs already produce a range of regulated and unregulated documents which provide relevant and legislated disclosures / information to existing and prospective shareholders. For example, these include:

- the company's interim report and **audited** annual report and financial statements which are publicly available.
- the daily NAV t announced to the market.
- discount history.
- The company's website and regular company factsheet.
- A number of companies are publishing a Statement of Operating Expenses ('SOE'), which furnishes the investor with a one-page summary of the expenses of the business along with other key information on the source of expenses.
  market announcements ('RNS').

To add an additional document to this, **that does not include useful or contextual information to support the shareholder / prospective shareholder will only create confusion.**

The proposed Product Summary requirements have a large cross over with the existing Company factsheet. The information differences between the two documents mainly result from information that is either not relevant or useful.

It would be beneficial for the FCA to recognise that **different investment vehicles demand different types of information**. One size does not fit all.

LCICs should not be made to replicate something that works for open-ended companies but not for them.

On the component parts of the product summary, feedback is included elsewhere as described below

- **a)** Costs and charges - **Responses 21-27**
  - i. Summary cost illustration
  - ii. One off entry and exit costs
  - iii. Ongoing costs (including pull through costs)
  - iv. Transaction costs
- **b)** Risk and reward – **Responses 28 -34**
- **c)** Past performance – **Responses 35-3**8
- **d)** Chapter 8 core data requirements – **Responses 39-40**

(b) Design or layout

We agree that the product summary should not a have a prescribed design or layout. This will maximise flexibility and the capacity of the preparer to provide information of value to existing and prospective shareholders in a LCIC.

Factsheets are not currently and should not become regulated.

Q16: 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.

We **agree** that distributors should provide the relevant document to investors as early as practical in the investment journey to aid consumer decision making. For LCICs this should be the company factsheet.

We **agree** that this should not be required if the purchase is being arranged by a discretionary manager or if the investor has approached the firm to just arrange the transaction.

Currently, information presented by distributors is in many cases misleading and often woefully out of date. A minimum standard of timeliness in the form of a service level agreement should be in place to ensure that the presentation of information, published by LCICs is timely, accurate and of value to investors. The minimum standard should apply to distributors, to ensure retail investors have access to useful and relevant information on which investment decisions can be based.

We **do not agree** that distributors should be permitted or authorised to prepare their own CCI product summary (para 4.24 / draft handbook text 3.1.2 G (2)) as per **Response 10** above. They may wish to provide tailored information to their clients, based on data provided by the manufacturer, but there is no reason for this to be a CCI product summary.

At present, platforms require customers to tick a box to say they have read the KID. This could be replaced with the relevant document. A company factsheet for a LCIC and a Product Summary for open-ended funds.

There also needs to be a mechanism for customers to be able to view updated versions of the relevant document.

Q17: 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?

We agree that distributors should be required to provide the relevant document (as outlined in **Response 16**) to the consumer and that this could be done electronically (for example, by email).

The distributor should also highlight to the customer the information about where the customer can find updated literature on an ongoing basis.

Q18: 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?

We **strongly disagree** that an LCIC as an unauthorised firms should be required to follow some of the FCA's principles for business and basic product governance standards.

LCICs are not authorised by the FCA. LCICs are market instruments. They do not undertake regulated activities and therefore should not be included in the CCI regime.

(1) Moving the Regulatory Boundary

The CCI proposal is in effect moving the regulatory boundary to include LCICs within the CCI regime, whilst excluding all other listed companies. The consultation does not describe the expected change in manufacturing responsibilities between the AIFM and LCIC. This should not have been considered alongside changes to PRIN and PROD. Making such a significant change to regulatory roles and responsibilities via a product disclosure regulation downplays the significance of what is being proposed and does not allow for sufficient consideration of consequential impacts.

The FCA should not propose changing the regulatory status of LCICs without a full justification; a full and explicit consultation; and evidence of detriment arising from the current position.

(2) Implications for the Board

The FCA's proposal of recognising LCICs as unauthorised manufacturers has significant implications for the Board of the LCIC. There has been **no acknowledgement of the LCIC Board** in the consultation.

LCICs are governed by a Board of majority independent Non-Executive Directors (iNEDs). Extending the remit and responsibilities of the Board members will potentially impact the remuneration requirements for the Board. This will increase the expenses of the LCIC and this in turn will impact the performance and share price of an LCIC.

(3) Complicating regulatory / compliance processes

LCICs already have significant obligations under other rules (as outlined in **Response 4**), with systems in place to ensure their delivery. Overlaying obligations by the FCA which potentially reach across the broader operation of the company, will materially increase compliance burdens and costs. Ensuring compliance with competing frameworks will be difficult to monitor and achieve. The FCA recognises this in its approach to a listed commercial company. It should do the same for LCICs.

(4) Consumer Duty

We welcome the FCA's clarification at the meeting in Edinburgh on 11 March that **LCICs will not be subject to Consumer Duty**.

Q19: Do you have any other comments on what obligations manufacturers should have in the CCI regime?

No response

Q20: Do you have any other comments on what obligations distributors should have in the CCI regime?

(1) Up to date information

Distributors should be obliged to present accurate and timely information to both unit holders in open ended products and shareholders in LCICs.

Distributors should be obliged to make available information published by the manufacturer or LCIC within a reasonable timeframe, following publication.

The distributor's ability to restrict access to investments should be curtailed if the data on which decisions are made is inaccurate or out of date. Suspension of dealing in LCIC shares should only be executed if agreement has been reached with the LCIC and in the event agreement cannot be reached, decisions should be referred to the FCA.

(2) Adherence to laws and regulations

Distributors should be obliged to obey the law and should not restrict investor options based upon inaccurate information or their own administrative restrictions or commercial goals.

(3) Clear and not misleading presentation

Presentation of information should be clearly described and should not be communicated in a way that misleads or distracts the investor.

(4) Terminology

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 is to mix these terms, which has contributed to investor confusion. Please refer to the terminology table in the Summary at the front of our response.

(5) MiFID disclosure requirements

It is difficult to comment on the obligations of distributors as a key component of retail disclosure arises from the MiFID II requirements. These are not part of this consultation, particularly the points around aggregated 'single' figures costs disclosures before and after the purchase of investment products; and the disclosure on the 'cumulative impact of costs'.

Q21: 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 **strongly disagree** with the costs and charges disclosures proposed in the consultation.

Below we outline four key arguments on why LCICs should not be subject to the CCI cost disclosure requirements:

1. Existence of a clear policy statement from the Government to remove LCICs from aggregation
2. FCA seeking comparability of disclosure by structurally different instruments
3. Continued aggregation of LCIC expenses
4. Misalignment with listed company financial disclosure requirements

Our **specific issues of each of the cost disclosure requirements outlined in CP24/30**.

a. Summary cost illustration
b. One-off entry costs
c. One-off exit costs
d. Ongoing costs (including the inclusion of pull through costs)
e. Transaction costs

1. Existence of a clear policy statement from the Government to remove LCICs from aggregation

As outlined in the Executive Summary and Response 4, a clear policy statement from the Government to remove LCICs from aggregation.

2. Comparability of disclosure by structurally different instruments

The FCA would like to achieve 'comparability' of disclosure by structurally different instruments - between the costs of open-ended funds and the expenses of LCICs. Although costs for funds and expenses for LCICs may appear to be similar, the mechanism and method of levying each is entirely different, and it is arithmetically impossible to achieve comparability.

- Costs are charged to the unit holder of an open-ended fund.
- Expenses are charged to the LCIC.

All open-ended funds have a daily cost, which is charged to the unit holder, creating a performance hurdle which the fund must exceed for the investor to experience a positive return.

All LCICs have expenses which are incurred in the operations of managing the company and are deducted from and reflected in the NAV. These expenses are paid by the company and if considered to be out of step with expectations, this will be reflected in the share price. The impact on the shareholder is limited to share price movement. There are no costs deducted from the share value. The market determines the share value. Any cost disclosure needs to be relevant to the investor who could buy a certificated share and keep it in a drawer. They would incur stamp duty and commission on the purchase and commission when they sell (these are for the distributor to disclose as described below), but there are no other costs to be accounted for.

It is not possible to compare the cost of an open-ended fund with the expenses incurred by a LCIC in terms of the expected cash return received by the investor and to attempt to do so will cause ongoing confusion and result in a misleading picture being presented to investors in LCICs.

3. Continued aggregation of 'costs'

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 on 22 November 2024 as previously described). It is profoundly frustrating for the LCIC sector that the FCA's proposals are looking to reinstate a representation of costs that were so misleading that it required to be withdrawn.

This level of aggregation is flawed as it combines different types of costs that are levied at different points throughout the life of an investment. They therefore impact the investor and their investment in completely different ways. Their aggregation therefore results in misleading information being provided to the investor from a source the investor should be able to trust.

4. Misalignment to Listed Company Disclosure Requirements

LCICs are already subject to strict disclosure requirements mandated in

1. the Listing Rules.
2. the Disclosure Guidance and Transparency Rules.
3. company law in the form of reports and accounts (the financial statements are prepared in accordance with Financial Reporting Standard 102 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'.
4. Other prominent governance and accountability controls via a Board of Directors, including AIC Code of Corporate Governance (2024) – which is endorsed by the Financial Reporting Council (FRC)

Investors in LCICs look at the following sources for **useful information** on LCICs.

- the company's **audited** annual report and an interim report.
- the daily NAV and discount.
- the company's factsheet.
- the company's website.
- market announcements ('RNS') (including dividend announcements)
- minute-by-minute pricing of the shares of the LCICs on the London Stock Exchange permitting an instant assessment of sentiment towards the products

Within the audited annual report and the interim report, the company's operating expenses are disclosed. In the wake of the forbearance announcement, in order to try to ensure that investors could access relevant information in a succinct and digestible form, a number of participants from across the sector developed a **Statement of Operating Expenses ('SOE')** to highlight these expenses as part of the Company factsheet. The **most regularly requested data points requested by current and prospective investors** include the terms and value of the management fee, directors' remuneration expenses and auditor's fee. An aggregated cost figure would not make these items readily available.

Producing information that is not aligned to what is already produced is only going to cause confusion and is not helpful to either the investor or the LCIC. It is also liable to diminish the degree of trust that investors place in the publishers of such misleading information. There is a severe risk of reputational damage accruing to the industry participants if the data being provided is shown to be meaningless.

(5) Specific issues of each of the cost's disclosure requirements outlined in CP24/30

(a) Summary Cost Illustration

We **strongly disagree** with the Summary Cost Illustration.

The requirement for an aggregated summary cost perpetuates the key failures of the PRIIPs and MiFID II regimes cost illustrations we cannot support the CCI process if it resulted in the reinstatement of a representation of costs that has been shown to be misleading.

As noted, this level of aggregation is flawed as it combines costs relating to the administration of the portfolio and those relating to investment activities.

They are levied at different points and impact the investor or their investment in completely different ways. Combining them into a single figure would result in misleading and irrelevant information being provided to the investor. This metric will therefore not improve consumer understanding or decision making and will likely have the opposite effect by generating confusion on what the real investment costs are for an investor.

For information to be useful it needs to have context, presented in the right place, at the right time and provide clarity and understanding.

The summary cost illustration also 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.

Below is a table to demonstrate where the costs and charges as defined by CP24/30 actually arise with respect to a LCIC investment.

CP24/30 Cost and charges disclosure	Cost borne directly by investor (nothing to do with LCIC)	Expenses incurred by the LCIC	
		Charged to Revenue	Charged to Capital
One off entry cost	✓	n/a	n/a
One off exit cost	✓	n/a	n/a
Ongoing costs (excluding pull through costs)	n/a	n/a [1]	n/a [1]
Pull through costs [2]	n/a	n/a	n/a
Transaction costs	n/a	n/a	✓ [3]

[For notes 1-3, see relevant entries highlighted below]

(b) One-off entry and exit costs

Entry and exit costs exist, are charged only once, arising because of the specific transaction. They are **borne directly by the investor** and are **not deducted from the investment they are acquiring.**

These costs are distributor disclosures and are provided by a distributor as part of the consumer's investment decision making journey. **The LCIC does not and should not disclose these costs. These costs should be presented in a separate table to the costs of the LCIC. Presenting them in a single table is liable to confuse sand diminish consumer understanding.**

(c) [1] Ongoing costs

A LCIC does not have any ongoing costs as defined by the CCI draft handbook text 6.3.4 R (1) (a) which defined them as *'direct or indirect costs or charges that are regularly deducted from payments due to the retail investor, the amount*

invested, or the value of the CCI'. The value of the CCI is the share price. There are **no costs or charges deducted from a share price**.

Separately, a LCIC has **operating expenses**. These are essential expenses to operate the LCIC which can be either charged to revenue or capital and are disclosed in the Company's Statement of Comprehensive Income. These expenses **are reflected in and deducted from the NAV** (the NAV is not owned by the shareholder). **They are not deducted from the share price**.

The example in Appendix 2 demonstrates how this misrepresentation of ongoing costs flows through to client statements. This example is a valuation report for a Retail Client, who's portfolio consists exclusively of LCICs. This client has never been charged for investment in the shares of LCICs, yet the statement says there is an ongoing charge.

We propose that a LCIC discloses the audited operating expenses within a short **Statement of Expenses ('SOE')** as an addition to the Company's factsheet. Market participants have created a range of SOEs which have received positive feedback from the AIC, research companies, distributors and investment managers. The SOE has been designed with a range of market participants in mind and provides a clear summary of the operating expenses of the company and provides the investor with key information they require, for example, the investment management fee, the directors' remuneration and the audit fee. These are specific expenses that a LCIC investor would be interested in.

The Board of a LCIC also provide investors with a range of relevant Performance Measures to enable the investor or prospective investor to assess the LCIC. This includes information on (but not limited to):

- Discounts and premiums
- Dividend yield
- Net gearing
- **Ongoing charges ratio**
- Total return

These are disclosed in the audited annual report and updated regularly in the companies' factsheets.

(d) [2] Pull through costs

With regards to 'pull through costs', these are an expense in an underlying investment, are not an ongoing charge in a LCIC and are intrinsically linked to the investment strategy of the underlying investment and forms part of the LCIC's investment manager's investment decision making process. These 'pull through' costs **form part of the performance return** of the underlying investment.

If the LCIC holds a share in an underlying LCIC, then that share value is determined by the market. There are **no** charges paid by the LCIC.

We **strongly object** to pull-through costs and recommend that LCICs should not disclose 'pull through costs'. In absence of this removal, it will be impossible for any open-ended fund to invest in LCICs given that they will appear as overly expensive to end investors, thus draining more capital from the market – and similarly – that all this does is to incentivise greater flow into passive vehicles which won't require any pull-through, and which has significant consequences for supporting investment in productive assets and the smaller / midcap end of public markets.

See **Response 24** for more information.

(e) [3] **Transaction costs**

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 LCIC's annual report and are fully disclosed within the notes to the accounts. **They are deducted from the NAV. They are not a charge deducted from the share value.**

LCICs are required to disclose transaction costs (without slippage costs) in the company's annual report as part of the Investments note in the financial statements.

Slippage costs are not a widely understood concept by retail investors. If LCICs are required to report portfolio transaction costs using the slippage cost method in the Summary Cost Illustration and the accounting cost in the audited accounts, this will create completely unnecessary confusion. **Transaction costs should not be included in the Summary Cost Illustration and if they are shown, they should reflect the accounting cost, NOT based on slippage costs.**

Conclusion

As well as not providing LCIC investors with useful information, the **implications** of cost disclosures and aggregated cost disclosures on LCICs are comprehensively covered within our **Response 4**. We reiterate these implications here.

a. Development of wide discounts and the implications of that.

b. Creates an unlevel playing field between UK listed companies in the domestic market.

c. Uncompetitive position for UK Listed Companies in the international market.

d. Collapse in capital raising due to 'UK only' misleading cost disclosure regulation.

The proposals, if implemented, would neither contribute to consumer protection nor consumer understanding of the ownership of LCIC shares, but would increase confusion and reduce the degree of trust in the sector.

The proposals, if implemented, are likely to lead to restructuring of LCICs either into listed commercial companies or into private funds, with the ensuing aggravation of the already pronounced trend towards shrinkage of the active asset management industry in the public market space, with a clear detriment to consumer choice and investment outcomes. This approach would place the UK in a distinctly uncompetitive position vs other developed markets, like the US and Switzerland, where no listed company is classified as a product for disclosure purposes and comparability of closed-ended and open-ended funds is not pursued. We have not seen any evidence to explain why the proposed route is beneficial to investors in the face of the facts.

Our very strong recommendation is that LCICs need to be excluded from CCI, or at the very least ring fenced within CCI so as not to destroy the sector and remove an appropriate investment option from investors.

Q22: Do you agree with our approach to disclosing transaction costs? If not, please explain why.

We **do not agree** with the proposed approach to disclosing transaction costs. Transaction costs **should not be disclosed alongside ongoing costs**. Transaction costs are **variable costs** and relate to the investment transactions undertaken by the LCIC to achieve its investment strategy.

Transaction costs are expensed through capital and included within gains and losses on investments in the **audited** Statement of Comprehensive Income and are fully disclosed within the investment note that forms part of the financial statements. Being presented alongside the investments, provides the correct context to the disclosure. Transaction costs are already taken account for in the daily NAV that is disclosed to the market on a daily basis.

Q23: Do you agree with adopting the PRIIPs methodology for calculating transaction costs? If not, please explain why and what alternative methodologies you would suggest.

We **do not agree** with adopting the PRIIPs methodology including the calculation of slippage costs.

The requirement to calculate slippage is burdensome. It provides information which has no meaningful value to the investor. The FCA states that it has received no evidence that disclosure of slippage is misleading (para 5.19 but it has not provided evidence that it provides any value to retail investors.

The FCA's continuing view that presenting this information to retail investors has value for them is surprising given its recognition that "*the assumption behind slippage cost is that the short-term market movements are random, and that, at the level of the portfolio, when these random components are added together, they should be close to zero*" (para 5.20). If this is the case, then there is no value in calculating these figures for consumer disclosures.

We strongly consider that the requirement to calculate slippage for the purposes of transaction cost disclosures should be removed from the proposal.

Q24: Do you agree with our approach to pulling through costs? If not, please explain why.

We **strongly disagree** with the FCA's proposed approach to pull through costs for actively managed funds.

The proposal to 'pull through' company expenses and present them as ongoing investor costs is wholly misleading and will distort investor understanding. There are no pull-through costs for LCICs.

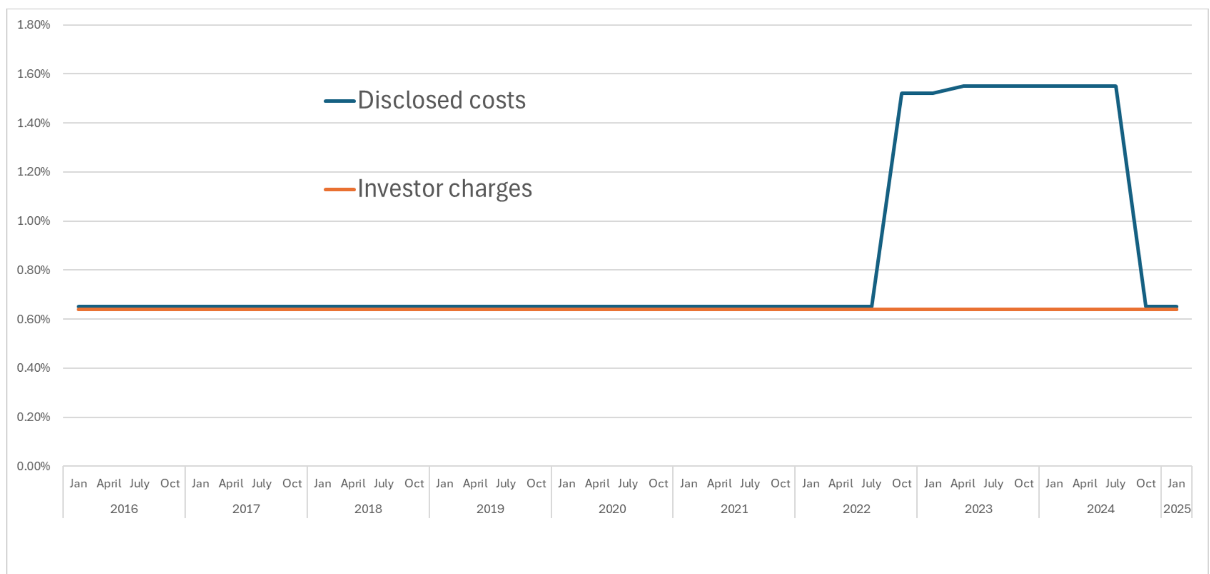
Costs in underlying investments are intrinsically different from costs in the LCIC itself.

For example, expenses for operating a LCIC are required to run and maintain the company as an investment vehicle. These would include the manager's charge as well as directors' remuneration, depositary, listing and audit fees etc. **An expense in an underlying investment is not an ongoing charge to the LCIC.** These expenses are intrinsically linked to the investment strategy of the underlying investment and form part of the LCIC's investment manager's investment decision making process. Where the underlying investment is unlisted, these pull-through costs are already accounted for in the asset value. Where the underlying investment fund is another LCIC, then the carrying value is based on the market price, not the NAV and form part of the performance return of the underlying investment. To include these expenses as a cost to the LCIC is double counting and therefore misleading. It implies that these expenses will be incurred again, when that is not the case.

The chart below shows presentation of 'pull through costs' (optical costs) for a UCITs fund, which invests in LCICs in the UK.

- The investor is charged for ownership of the UCITs fund (shown in orange)

- The manufacturer was required to publish misleading ‘costs’ of investment companies (blue). These are not charged to the investor.
- From July 2022, optical ‘costs’ were elevated.
- FCA forbearance in September 2024 ensured optical ‘costs’ were removed from disclosures to investors.



If the investing fund was registered in the US, it would only have shown the orange line.

We **agree that tracker funds should not ‘pull through’ costs** into their own costs. As the FCA admits, this would create “*market distortions*” by making the funds appear “*unduly expensive*” (paragraph 5.26). This is the correct approach. Pulling through LCIC costs into the costs of the tracker is wrong as they are already accounted for in the value of the portfolio and the NAV. Were these costs to be included this would ‘double count’ those expenses. This would be misleading for investors in the tracker. The position is no different for actively managed funds holding LCICs and accordingly, there should be no ‘pull through’ of costs. In absence of the removal of the pull through requirement, it will be impossible for any open-ended fund to invest in LCICs given that they will appear as overly expensive to end investors, thus draining more capital from the market – and similarly – that all this does is to incentivise greater flow into passive vehicles which won’t require any pull-through, and which has significant consequences for supporting investment in productive assets and the smaller / midcap end of public markets.

Competition and consistency

Requiring actively managed CCIs to include pull through costs and exempting tracker CCIs would **fundamentally distort competition** between the two and would be contrary to the FCA objective in creating a level playing field. This is not compatible with the FCA's objectives and regulatory principles: Compatibility statement to create a level playing field (see Para 8 of the consultation). We were encouraged by the guidance being provided by the FCA at the meeting in Edinburgh on 11 March 2025. The treatment of pull through costs **must be consistently applied**.

There should be no requirement for tracker or active funds to publish 'pull through' costs. They are a misleading concept.

Only **the actual costs incurred in the ownership** of the investment should be presented to the investor in the way suggested in the CCI. **For all LCICs the cost is zero.**

Q25: 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 that gearing costs and operational costs in managing real assets held by an LCIC should not be disclosed in a cost disclosure because **there are zero ongoing costs payable by the shareholder for the ownership of shares in LCICs.** The ongoing expenses are paid by the company and deducted from the NAV.

Q26: 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?

We **strongly disagree** with the proposals for the presentation of costs and charges. There are no ongoing costs to the shareholders of an LCIC.

(1) Expressing each of the figures as a percentage of the applicable investment amount

Draft handbook text 6.2.12 states that the manufacturer must express each of the figures as a **percentage of the applicable assumed investment amount**.

The applicable assumed investment amount is defined as a hypothetical assumed investment amount of

(1) £10,000 for consumer composite investments other than regular premium consumer composite investments; or
(2) £1,000 annually for regular premium consumer composite investments.

For **investors in LCICs**, this would be **£10,000 of shares**. This requirement is therefore asking for a percentage against share price, not against NAV. **There are no charges deducted from the share price.** 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. It will also reduce consumer understanding.

(2) Summary cost illustration

Please see Response 21 re our **strong objection** of the summary costs illustration requirement.

As previously covered in the **Executive Summary** and in **Response 4**, aggregated costs were one of the fundamental issues with PRIIPs and MiFID II regime cost disclosures which led to the change of law with the new Statutory Instrument on 22 November 2024. **We do not understand why the consultation process is looking to reinstate a representation of costs that has been shown to be misleading.**

As described in Response 21, the level of aggregation proposed in the Summary Cost Illustration is flawed as it combines costs relating to the administration of the portfolio and those relating to investment activities. They are levied at different points and impact the investor or their investment in completely different ways. Combining them into a single figure would result in misleading and irrelevant information being provided to the investor and is likely to generate confusion on what the real investment costs are for an investor. For information to be useful it needs to have context, presented in the right place, at the right time and provide clarity and understanding.

We **strongly disagree** with the Summary Cost Illustration proposal and would like to see this requirement deleted.

The summary cost illustration also 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.

Below is a table to demonstrate where the costs and charges as defined by CP24/30 actually arise with respect to a LCIC investment.

CP24/30 Cost and charges disclosure	Cost borne directly by investor (nothing to do with LCIC)	Expenses incurred by the LCIC	
		Charged to Revenue	Charged to Capital
One off entry cost	✓	n/a	n/a
One off exit cost	✓	n/a	n/a
Ongoing costs (using proposal definition but excluding pull through costs)	n/a	n/a [1]	n/a [1]
Pull through costs [2]	n/a	n/a	n/a
Transaction costs	n/a	n/a	✓ [3]

[For notes 1-3, see relevant entries highlighted below]

b. One-off entry and exit costs

Entry and exit costs exist, are **charged only once**, arising because of the specific transaction. They are **borne directly by the investor and are not deducted from the underlying investment.**

One-off entry costs **should be disclosed by the distributor as part of the consumer's investment decision making journey**. The **LCIC should not disclose these costs** (it's also impossible for a LCIC to disclose these costs due to the variability of these costs).

c. [1] Ongoing costs

A LCIC does not have any ongoing costs as defined by CCI draft handbook text 6.3.4 R (1) (a) which defined them as *'direct or indirect costs or charges that are regularly **deducted from** payments due to the retail investor, the amount invested, or **the value of the CCI**'*. The value of the CCI is the share price. There are **no costs or charges deducted from a share price.**

Separately, a LCIC has **operating expenses**. These are essential expenses to operate the LCIC which can be either charged to revenue or capital and are disclosed in the Company's Statement of Comprehensive Income. These expenses **are deducted from the NAV** (the NAV is not owned by the shareholder). **They are not deducted from the share price.**

We propose that a LCIC discloses the audited operating expenses within the **Statement of Expenses ('SOE')** as an addition to the Company's factsheet. Some Managers have been publishing SOEs for the LCICs that they manage, since November 2024, and has received positive feedback on these. The SOE

provides a clear summary of the operating expenses of the company and provides the investor with key information they require, for example, the investment management fee, the directors' remuneration and the audit fee. These are specific expenses that a LCIC investor would be interested in.

d. [2] Pull through costs

With regards to 'pull through costs', an expense in an underlying investment is **not an ongoing charge** in a LCIC and are intrinsically linked to the investment strategy of the underlying investment and forms part of the LCIC's investment manager's investment decision making process. These 'pull through' costs **form part of the performance return** of the underlying investment.

The LCIC will hold a share in an underlying LCIC. That share value is determined by the market. There are **no** charges paid by the LCIC.

We **strongly object** to pull-through costs and propose that LCICs do not disclose pull through costs. See **Response 24** for more information.

e. [3] Transaction costs

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 losses for investments in the Statement of Comprehensive Income in the LCIC's annual report and are fully disclosed within the notes to the accounts. **They are deducted from the NAV. They are not a charge deducted from the share value.**

LCICs are required to disclose transaction costs (without slippage costs) in the company's annual report as part of the Investments note in the financial statements.

The proposals, if implemented, would neither contribute to consumer protection nor consumer understanding of the ownership of LCIC shares and detrimentally impact LCICs.

Q27: 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 proposals to address MiFID cost and charges are essential but absent. The consultation refers to considering the CCI proposals alongside distributors' existing obligations. However, the MiFID costs and charges should be part of the consultation to ensure that they are considered holistically and coherently with the CCI proposals.

Two things are required as a matter of urgency regarding LCICs

1. Maintenance of the amendment to the MiFID Org Reg which deals with aggregation. Put simply: because there is no cost deduction from the share price, which is the value owned by the investor, be that a retail client or open-ended fund, there is nothing to aggregate.

2. Recognition of the fact that there is no deduction from share value in all the descriptions made by distributors, in particular by investment platforms and wealth managers, which can be done by the FCA issuing a clarification of the meaning of 'value', namely the share price in the MiFID Org Reg.

Where there is overlap with CP24/30 on CCI no opportunity should be lost to rectify the continuing situation of misinformation that is being given to consumers and causing market disruption. **The FCA has now publicly confirmed the factual situation that there are no deductions from share price of closed-ended LCICs. That should be acted upon wherever possible.**

There can also be no conflict between MiFID II requirements and CCI rules.

Q28: Do you agree that we should maintain a standardised horizontal risk score for CCIs? If not, please explain why.

We **strongly disagree** that a standardised horizontal risk score should be maintained for a LCIC.

The proposal to apply a risk score to any listed company is of serious concern. There are **no other circumstances in which a listed company would be rated with an estimated risk score**.

For example, retail, investors considering investing in SGR or BBOX (as referenced in our Response 4) will not be presented with a risk score before investing in SGRO, but the same investor looking to invest in BBOX will be presented with a risk score before investing. These two companies compete directly with each other, the only structural difference being is that SGRO employs its own management team, which BBOX outsources its portfolio management, this is not a valid basis for such differentiated treatment.

This sets an alarming precedent. Any company may encounter headwinds and may have to report results which are out of line with market expectations, leading to unforeseen bouts of volatility. Amongst issues encountered may be a deviation from expected revenues *or expenses*, both of which may impact the share price, the true and only method of assessing investor returns. Proposing that LCICs are distinct from other listed equities is potentially very misleading for investors.

The use of a single indicator is a powerful influence on a retail investor, potentially resulting in investors making inappropriate investment decisions.

The premise of a risk score based on historic volatility implies that past performance does have a bearing on anticipated returns, which runs counter to investment advice presented to retail investors.

Risk narrative is a more informative way to inform the investor of potential risks and associated rewards and allow an investor to consider the risks sensibly rather than making a decision based on a potentially misleading risk scoring system. The risk score cannot take into account the investment horizon of the investor, while consumers may say that they like / want or need it, that does not mean the data point is helpful or useful.

Q29: Do you agree with our proposals for narrative risk and reward requirements? If not, please explain why.

Although we are supportive of risk narrative, LCICs already provide extensive and relevant risk narrative on the Company's **Principal Risks and Uncertainties** in the **Annual Report** as required by the AIC Corporate Governance Code (2024).

'**Risk Factors the investor should consider prior to investing**' are included within the **Company factsheet**. The risks are relevant to the Company and its investment portfolio.

Ultimately it is helpful for an investor to have a greater understanding of the goals and expectations for any company, but this should not be a regulated requirement.

Q30: 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.

LCICs are market instruments and should not calculate a risk score (see **Response 28** for our justification)

For open-ended funds, the risk rating methodology should reflect **both the anticipated volatility** of the open-ended funds to which it applies **and also the liquidity** profile.

Liquidity considerations should be taken into account and should generate a higher rating for less liquidity. Daily trading products carry less risk than those with less frequent liquidity.

Risk scores recorded for a period that is longer than 5 years would be recommended.

Q31: 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.

Although a scale of 1-10 would provide a better spread, it should probably be noted that extending the scale may result in some products moving across different risk scores more frequently, which could be misrepresented as a material change in the risk profile, whereas it could simply mean that the risk scope has increased by 2 bps.

Q32: 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.

This question highlights that the proposed risk methodology is inherently flawed and will create anomalies.

If there is manual intervention to address the anomalies, this introduces subjectivity and increases the risk of inappropriate risk metrics and reduces the argument for a standardised risk metric.

It is also unrealistic to assume that asking manufacturers to consider amending the risk score will mean effective risk disclosures. Giving manufacturers discretion to change the risk score makes it difficult for distributors to rely on the information and make it more difficult for consumers to rely on those risk scores to make comparisons.

We believe the risk metric requirement should be removed from the proposal and replaced with narrative on the risk profile of the company.

Q33: Do you agree with the proposals for products within the high-risk category? If not, please explain why.

LCICs are market instruments and should not calculate a risk score (see **Response 28** for our justification).

In para 6.28 it states that products regarded as high risk will be automatically assigned a minimum 9 on the risk scale.

Included in the list are highly leveraged products, but there is no guidance to advise what is regarded highly leveraged.

Another issue that arises in the case of products that use leverage, with all things being equal, we would anticipate that leveraged products would already calculate to a higher volatility under the proposed standard deviation methodology. It is not clear why an override would be needed in such an eventuality.

As previously described in **Response 30**, for open-ended funds, the risk rating methodology should reflect **both the anticipated volatility** of the open-ended funds to which it applies **and the liquidity** profile.

Q34: 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.

Q35: Do you agree with our proposals to require showing past performance? If not, please explain why.

We agree that it is valuable to show past performance. While it is a risk that it may be used by some investors to judge likely future performance, it is a key metric that investors generally expect to see in LCIC documentation.

As required by the FCA, LCICs also make clear on their marketing literature that past performance is not a guide to future results.

With reference to para 7.28

(b) we agree that for LCICs past performance should reflect the **share price**

We agree that the presentation of the NAV should remain optional and agree that information on the share discount / premium would be useful.

Q36: Do you agree with our proposed requirements for a line graph for products that have past performance? If not, please explain why.

Our observation is that bar charts tend to be better for comparing data. Line graphs are better for showing trends.

Although we agree that line graphs serve a useful visual reference point for investors, many LCICs report performance using bar charts and performance tables.

The Board should continue to have the right to publish their performance data in the most appropriate format for their company.

Q37: 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.

Under the current rules governing LCICs are required to publish performance information. LCICs already publish a ten-year financial record (where this exists) and various relevant performance charts including Total Return and Premium / Discount.

DISC 3.4.5 requires that units of the x-axis must be in calendar years. LCICs performance reporting is **aligned to their fiscal year**, not a calendar year.

Q38: Do you agree with our proposed requirements for the inclusion of benchmarks in the line graph? If not, please explain why.

No, this should be a decision taken voluntarily by the Board of an LCIC with advice being received from Investment Manager. If this proposal were to become a requirement, it should be extended to include all listed companies with a repeatable business model.

We **agree with Para 7.19** that permits CCIs without a benchmark to give an alternative method to assess performance.

Q39: Do you agree with our proposals for required basic information that must be disclosed? If not, please explain why.

As well as the disclosure requirements required to be made by a LCIC, LCICs **already publish relevant pre-sale disclosures** as a company factsheet that fully aligns with the existing AIC methodology.

Some LCICs have incorporated the new **Statement of Operating Expenses** ('SOE') into their factsheet which surfaces internal company expenses, such as asset management and administrative expenses, from the audited Annual Report and Financial Statements.

LCICs need not to be labelled as CCIs for the purposes of this disclosure.

Q40: Is there any other basic information you think should be communicated to consumers?

As described in **Response 1**, the information requirements for LCIC investors are different to that of the mutual fund investor. These information needs are already met by the disclosure requirements that an LCIC makes through being a listed company (as outlined in **Response 4**).

Also as described in **Response 4**, it is far more beneficial for an investor to have information be able to compare listed companies, whether they be LCICs or listed commercial companies, than across a whole continuum of non-comparable investment vehicles.

Q41: Do you agree with our Cost Benefit Analysis? If not, please explain why.

No comment.