bvca
Invested in a better future

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

By email: cp24-30@fca.org.uk

21 March 2025

Dear Consumer Investments Distribution Policy,

RE: CP24/30 A new product information framework for Consumer Composite Investments

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity and venture capital (private capital) industry in the UK. We represent the vast majority of all UK-based private capital firms, as well as their professional advisers and a large base of UK and global investors. In 2023, a total of £59.6bn was raised by UK-managed funds to be invested globally, with £20.1bn having been invested by private capital into UK businesses in sectors across the UK economy. There are over 12,000 UK companies backed by private capital which currently employ over 2.2 million people in the UK. A majority of the businesses backed are outside of London and 90% of the businesses receiving investment are small and medium-sized enterprises (SMEs).

We welcome the opportunity to respond to the FCA's proposals for Consumer Composite Investments (CCI). However, we are disappointed that the proposals do not address many of the well-documented challenges in the outgoing Packaged Retail Investment and Insurance Products (PRIIPs) regime and, in some cases, exacerbate them. While we acknowledge the efforts to refine the framework, the approach remains largely prescriptive, particularly in its treatment of costs and charges disclosures. This risks perpetuating many of the issues identified under PRIIPs, such as the emphasis on comparability and standardised disclosures that fail to reflect the diversity of investment products in the market. The FCA's continued reliance on a one-size-fits-all approach may inadvertently create confusion for consumers and increase the regulatory burden on firms, without delivering fair, clear and not misleading information for investors.

Given the FCA's secondary objective of promoting the international competitiveness of the UK's financial markets, we strongly recommend that the FCA puts its proposals for a new product information framework for CCIs on hold and maintains the status quo under UK PRIIPs for the time being. The current proposals appear to focus primarily on regulatory consistency – reinforcing unhelpful elements of PRIIPs – rather than fostering an environment that encourages innovation, investment, and economic growth. The Government's focus on ensuring that regulators support economic growth (as outlined in the "New Approach to Ensure Regulators and Regulation Support Growth") highlights the importance of regulatory frameworks that facilitate investment and removes unnecessary barriers. The FCA's current approach to CCI does not align with this objective.

In this context, the CCI proposal represents a missed opportunity to fundamentally rethink the disclosure regime in a way that better supports growth, reduces unnecessary complexity, and empowers investors with clear, accessible information. We urge the FCA to reconsider its approach to take the time to properly address the known issues within PRIIPs, rather than embedding them further into the UK regulatory framework. A more flexible and proportionate framework would better align the CCI proposals with the Government's vision for regulatory reform, support a competitive and innovative market environment, and ultimately deliver better outcomes for both investors and the broader economy.

We have only responded to the questions on which BVCA members have specific views.

The wider context

Question 1: Do you have any comments on our approach to applying the Consumer Duty to CCI product information?
Yes.

We are concerned about the potential for confusion arising from the interaction between the high-level, principle-based requirements of the Consumer Duty and the more prescriptive, detailed requirements proposed for product information under the CCI regime. While we support the overarching aim of the Consumer Duty—to ensure consumers receive clear, fair, and not misleading information that supports effective decision-making—the specific approach taken within the CCI regime risks undermining these objectives.

The Consumer Duty is built around outcomes-focused principles, requiring firms to act in good faith, avoid foreseeable harm, and enable and support consumer understanding. It encourages flexibility, enabling firms to apply these principles in a manner that best suits their products and consumer base. In contrast, the proposed CCI regime introduces prescriptive disclosure requirements, particularly around comparability of cost presentation and risk warnings. These rigid requirements not only conflict with the Consumer Duty's principles-based approach but could also result in confusion for both consumers and firms.

A key concern is the requirement to aggregate underlying fund costs into a single figure. While intended to simplify cost disclosure, this approach risks obscuring important details about how costs are structured and how they relate to the value delivered. We do not believe this can be achieved in a way which allows for accurate and decipherable comparisons to be made between products, especially where they have very different investment objectives, risk profiles and liquidity, etc. characteristics. For private capital funds including closed-ended investment companies, which often invest in other funds, this aggregation would make it difficult for consumers to distinguish between primary fund costs and those associated with underlying investments. The issue of double counting remains if costs are netted off NAV in the case of investment trusts and companies leading to continued difficulties in making fair and balanced comparisons. This lack of granularity contradicts the Consumer Duty's emphasis on clear, transparent information that allows consumers to make well-informed comparisons and decisions.

In addition, **the proposed risk and reward metric under the CCI regime** will fail to reflect the nuanced risk profiles of different investment products. This one-size-fits-all approach, with a default designation of 9 or 10 for "high-risk investments" (expected to encapsulate most (if not all) of the private capital industry), not only undermines the Consumer Duty's focus on tailoring communications to the target market but may also lead to unnecessary alarm or, conversely, a false sense of security among consumers with differentiation between products almost impossible.

We are also concerned that **the prescriptive nature of the CCI regime may drive firms to prioritise compliance with rigid rules** rather than focusing on delivering genuinely clear, consumer-focused information, as required under the Consumer Duty. This could result in a tick-box approach (like we have under the outgoing PRIIPs regime) that prioritises regulatory adherence over meaningful consumer engagement.

To address these concerns, we urge the FCA to reconsider how the CCI regime aligns with the Consumer Duty. The **FCA must also ensure that the Consumer Duty does not in effect operate to extend further the very prescriptive requirements of the CCI regime**. (We would note that this risk was evident when the FCA published its recent forbearance for closed-ended investment companies. Notwithstanding this, distributors felt constrained by the requirements of the Consumer Duty which they were told applied as an overarching requirement.) A more flexible approach, allowing firms to present cost and risk information in a way that reflects

the specific characteristics of their products and the needs of their consumers supported by flexible narratives, would better support the Duty's overarching principles. Broadly, we think the FCA should ensure clarity and suitability of disclosures within product categories, allowing investors to make informed decisions between comparable products, rather than prioritising superficial and, worse still, misleading comparability across a wide range of investment products.

We would also note the **overlap (in part) between the new CCI regime and existing regulatory requirements** and concepts, such as those contained in PRIN 2A, PROD, COLL, COBS and the MiFID Org Regulation (although we note the FCA's comments on crossover with the MiFID Org Regulation). In implementing the new CCI regime, the FCA should avoid firms having to grapple with similar or duplicative regulatory requirements and concepts set out in multiple sources. In this respect, we also welcome recent comments made by Nikhil Rathi on the FCA streamlining its work, ending duplication, cutting unnecessary regulatory burdens and supporting growth.

Application of the CCI regime

Question 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?
Yes.

Staff co-investment arrangements
It would be extremely helpful for the FCA to clarify that staff co-investment arrangements are outside of scope of the proposed CCI regime.

Our principal concern here is the risk that the CCI rules bring into scope private equity limited partnership structures which are marketed to professional investors only, where the terms of that third party investment includes requiring that executives at the private equity manager co-invest into the structure. These arrangements apply to private equity structures globally. The BVCA has previously discussed this issue in the context of PRIIPs and received assurances from policymakers that PRIIPs was never intended to apply to these structures. If the UK now introduces CCI to replace PRIIPs, it is important that the UK does not become an outlier in mandating additional disclosures on the basis of staff co-invest arrangements.

The risk is that these arrangements might be brought within the scope of the CCI regime in situations where the relevant private equity executive does not meet the professional opt-up criteria. We therefore propose that the rules clearly exclude this type of arrangement from scope.

Staff co-investment is a crucial mechanism for aligning interests in private capital funds, ensuring that fund managers and investment teams have skin in the game alongside their investors. By committing their own capital to the funds they manage, staff demonstrate confidence in their investment strategy and decision-making, reinforcing accountability and discipline. This alignment incentivises private capital's focus on long-term value creation rather than short-term gains. Additionally, co-investment fosters a partnership mindset between fund managers and investors, strengthening trust and reinforcing a shared commitment to the fund's success. In competitive fundraising environments, a strong co-investment culture can also serve as a differentiator, signalling alignment and commitment to prospective investors.

The potential application of the CCI regime to these arrangements raise significant concerns due to the fundamental mismatch between the regime's consumer protection focus and the nature of these arrangements. The proposed CCI regime (and PRIIPs before it) is designed to protect retail investors by ensuring clear disclosures through a Product Summary. However, staff participating in such arrangements are not retail investors per se; rather, they are typically in-house industry professionals with a deep understanding of the investment product they are co-investing in.

Staff co-investment arrangements are fundamentally different from retail investment products. Investors insist on them as a pre-condition to their investment in funds. They are not marketed to the public, and participants will often have direct access to detailed investment information through their roles. Applying CCI requirements in this context would create a wholly unnecessary regulatory burden without delivering meaningful benefits. Staff investors are already well-informed about the risks, fees, and structures of these arrangements.

Imposing CCI requirements on these arrangements would also result in disproportionate administrative costs for firms, diverting resources from core investment activities. Given that these arrangements are private, non-retail offerings aimed at informed participants, the regulatory burden appears unjustified and inconsistent with the purpose of the CCI regime.

It is also our view that applying CCI disclosure requirements to staff co-investment arrangements would be inconsistent with the FCA's secondary objective, as it would impose unnecessary regulatory burden and cost on firms without furthering any of the primary objectives.

Clarification that these arrangements are out of scope regardless of quantum or, if necessary, a specific knowledge and expertise related exemption, is particularly important as the government is currently considering making co-investment a qualifying condition for the tax treatment of carried interest.

For these reasons, staff co-investment arrangements should be outside of scope of the CCI regime.

No Capital / Nominal Capital

The CCI regime does not appear to cater for a situation where an investment is acquired either (a) without any capital commitment; or (b) with only a nominal (or de minimis or "token") capital commitment.

The effect of this is that the CCI regime could apply where there is either no capital or only nominal capital at risk. This type of situation often arises, for example, in the context of the staff arrangements referenced above – e.g. where the staff member makes a nominal capital commitment (e.g. £100).

By way of comparison, we also note PERG 16 guidance on AIFMD, where the FCA's view is that, if a person invests only a nominal amount of capital, that person should not be regarded as an "investor".

Recalibrating the professional client opt-up test for private capital

If the FCA is not minded to clarify that staff co-investment arrangements are out of scope or introduce a specific exemption, it should expressly allow firms to opt up employees using the non-MiFID test, rather than relying on the rigid MiFID criteria. As discussed in Chapter 4 of CP24/24, the FCA has acknowledged the limitations of the MiFID test and is considering a return to the non-MiFID approach in certain contexts. This reflects a recognition that the quantitative thresholds in the MiFID test are poorly calibrated for private capital investors, including staff participating in co-investment schemes.

The MiFID test's reliance on portfolio size, transaction frequency, and professional experience excludes many sophisticated investors simply because they do not engage in frequent trading or hold liquid financial instruments in a way that meets the strict thresholds. Staff investing in, for example, staff co-investment arrangements, are often deeply knowledgeable about the underlying assets and aligned with the firm's investment strategy, yet they may not meet MiFID's quantitative criteria despite having the requisite expertise and risk awareness.

Allowing firms to apply the non-MiFID opt-up test based on a qualitative assessment of an investor's knowledge, experience, and ability to bear risk would be a more proportionate and effective approach. This would ensure that staff who are well-positioned to understand and engage in co-investment opportunities are not excluded

due to technical constraints that were designed for liquid public markets rather than private capital. Aligning the opt-up framework with the specific characteristics of private market investors would support the FCA's secondary objective of fostering competitiveness and growth while ensuring appropriate investor protections.

Definition of "Retail Investor"
There appears to be a degree of both overlap and discrepancy between the scoping provision in draft rule DISC 1A.1.3R and the definition of "retail investor" in draft rule DISC 1A.1.4R – for example, (a) the concept of "*distributed*" is used in the former whereas the concept of "*…sold, or who is the recipient of an offer or advice…*" is used in the latter; and (b) the concept of "*consumer composite investment*" is used in the former whereas the concept of "*investment*" is used in the latter. This creates an element of confusion, and we would be grateful if the FCA could please clarify this.

Other Exclusions
We would suggest that the reference to paragraph (h) in draft rule DISC 1A.2.6R is removed, in order for the exclusions to apply in respect of all consumer composite investments listed in draft rule DISC 1A.2.1R(1).

Question 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.
No.

Draft Rule DISC 1A.1.6R vs DISC 2.3.1G
The exclusion set out in draft rule DISC 1A.1.6R seeks to make (minor) adjustments to the exclusion currently set out in DISC 2.3.1G (and we welcome the proposed decrease in the minimum investment requirement).

However, it is not entirely clear why draft rule DISC 1A.1.6R pertains to a consumer composite investment which is a "readily realisable security" whereas DISC 2.3.1G currently pertains to a "financial instrument". We would be grateful if the FCA could please clarify the reason for this distinction noting our comments below.

Draft Rule DISC 1A.1.6R vs. the Consumer Duty
The exclusion in draft rule DISC 1A.1.6R (and / or draft rule DISC 1A.2.6R) does not also reflect / is not also aligned with the current exclusion for "non-retail financial instruments" under the Consumer Duty (which is an important exclusion in the private capital industry).

The practical effect of this is that consumer composite investments which are not subject to the Consumer Duty would (or could) be subject to the CCI regime.

Given the retail consumer focus of the CCI regime, it is important that it is aligned where possible with the Consumer Duty regime (including the exclusions under that regime). As such, we would be grateful if the FCA could please clarify that "non-retail financial instruments" are also outside of scope of the CCI regime.

More generally, it is important where possible to maintain regulatory consistency in the concept of 'non-retail' products and ensuring that the rules work in harmony.

This would ensure a more consistent and appropriate regulatory framework, providing clarity for firms while ensuring that investors continue to receive the protection and transparency they need to make investment decisions.

Question 8: Do you agree with our proposed transitional provisions for moving to the CCI regime? If not, please explain why.
No. See our response to Question 9.

Question 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.
No.

We are concerned that the proposed transition period of 12 months for investment companies – compared to the 18 months for the rest of the market – will create unnecessary disparity that risks market disruption, investor confusion, and practical difficulties for both manufacturers and distributors.

Investment companies rely on a broad network of distributors, including platforms, advisers and wealth managers, who will also need to implement significant changes in response to the new CCI disclosure framework. The misalignment between the 12-month transition for investment companies and the 18-month transition for other products means that distributors will have to operate dual systems and may not be operationally ready to support investment companies within the proposed timeframe. If investment companies are forced to implement the new regime ahead of the rest of the market, distributors may deprioritise these products in favour of those benefiting from a longer 18-month transition period. This is likely to result in a reduction of the availability of investment companies on retail investor platforms, ultimately harming investor choice and limited access to an important segment of the market.

The proposed CCI disclosure requirements introduce fundamental changes in the way product information is presented, moving away from the PRIIPs templates and framework. Investment companies, like UCITS and other in scope product manufacturers, will need to develop, test and implement new disclosures that meet the new requirements. A 12-month transition does not provide sufficient time for firms to engage with the new requirements, and ensure the systems and processes are fully aligned.

To help ensure a smooth transition and minimise disruption, investment companies must be granted the same 18-month transition period as the rest of the market. This would allow distributors sufficient time to adapt their processes across all investment products simultaneously, reduce the risk of investment companies being disadvantaged by distributor unpreparedness, and ensure that investors receive more consistent information without confusion arising from staggered implementation dates.

We note that UCITS funds are subject to an exemption from the current PRIIPs regime until the end of 2026. It is vitally important that the FCA devote such time as is necessary to comprehensively review responses to this consultation and do not rush to publish final rules by mid-2025 (assuming an 18-month transition period) in a bid to avoid an extension to the current UCITS exemption.

Responsibility across the distribution chain

Question 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.
We are concerned that the level of cooperation envisioned between manufacturers and distributors may not be realistic in practice. There is a very real risk that the well-documented issues which PRIIPs has caused between manufacturers and distributors (in particular, execution-only retail investment platforms) will be made worse by the FCA's proposals. It is simply not realistic, for example, to expect listed investment companies / venture capital trusts and execution-only platforms to be able to "work together and share information". We are also concerned that certain provisions in DISC (e.g. DISC 2A.1 and DISC 2A.2.7G) would entitle distributors to make all sorts of information requests and other demands on manufacturers, going well beyond the specific requirements of the Consumer Duty. The FCA must deal with this in its final rules, ensuring PRIN and DISC work

together and that a manufacturer's obligations are set out clearly and explicitly and are not subject to unreasonable extension by distributors.

The industry has already witnessed significant disagreements between distributors and investment companies over cost disclosure information, before and following the regulatory forbearance and exclusion under the PRIIPs regime. These disputes illustrate the practical difficulties of ensuring alignment between these two parties. Expecting seamless cooperation is unrealistic and fails to acknowledge the complexities of what are various types of relationship. An IFA is a very different distributor to an execution-only platform, and the CCI rules fail to acknowledge this. Unless this is addressed, investment companies may once again find themselves in a position where distributors override or misinterpret key disclosures, leading to confusion for investors. We would welcome further guidance on the role of platforms in this regard with clearer obligations on how they should engage with manufacturers and other distributors – for example advisers.

Question 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.

The core information is very similar to that required under PRIIPs, with some adjustments. The CP confirms this - in relation to costs, the disclosure requirements will "*remain broadly unchanged from existing requirements*". Given this, it is important that manufacturers are given the flexibility to contextualise their mandatory costs disclosures. This is the only way of avoiding the seriously misleading costs information that was a well-known consequence of the PRIIPs regime and use of the EMT. Not only must manufacturers be permitted to provide full context (which is how we read the FCA's intention in the draft rules), but distributors must be under an explicit obligation to ensure that informational context is passed along the distribution chain (which has not been the case with the EMT). Distributors must not in any way distort the quantitative <u>or</u> qualitative disclosures which a manufacturer makes.

It is not entirely clear what is meant by "costs incurred in the maintenance and commercial operation of real assets" (DISC 6.3.4R(3)(a)). 'Real assets' should be defined to ensure (as we assume is the case) that it relates only to investments in physical assets such as real estate, energy and infrastructure, and the costs incurred in maintaining and operating those assets.

Question 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.

We strongly suggest the FCA prescribe a template for machine-readable product information to mitigate potential issues related to consistency and implementation across the industry. A prescribed template would avoid the issues identified above and reduce the risk of discrepancies, facilitate smoother integration making it easier for firms to adopt and comply with new requirements and improve data accuracy by reducing the likelihood of misinterpretation or formatting errors when information is processed by different market participants.

Question 14: Do you agree that manufacturers should be responsible for producing a product summary? If not, please explain why.

We are concerned about the application of a largely prescriptive retail product disclosure regime to all investment products. The FCA continues to emphasise comparability across a broad range of fundamentally different products, with the product summary as the key mechanism to achieve this. However, comparability was a central objective of the PRIIPs regulation, and its challenges illustrate the difficulties of applying a standardised approach to diverse investments. If the aim is to help investors make well-informed decisions across different products, a rigid disclosure framework that prioritises form over substance may not be the most effective solution. The idea that a single, standardised product summary can provide meaningful comparability across a wide range of investment products is unrealistic.

We also have reservations about certain aspects of the proposed rules. For example, paragraph 4.20 states that "Firms should take reasonable steps to ensure the product summary meets the information needs of retail investors…". DISC 2A.2.5R goes further by requiring manufacturers not only to produce a product summary and core information disclosure but also to provide additional qualitative and subjective information—such as "sufficient and appropriate" details on target market, value, risks, and distribution strategy. This extends into areas already covered by PRIN 2A, including PRIN 2A.3.16R, and could create uncertainty over the respective responsibilities of manufacturers and distributors. Distributors, who have the direct relationship with retail consumers, are best placed to determine what additional information may be necessary for their clients. To avoid confusion and potential conflicts with PRIN and the Consumer Duty requirements, we encourage the FCA to draw a clearer distinction between DISC and PRIN—ensuring that DISC remains focused on prescriptive retail disclosures, while PRIN governs broader consumer duty obligations. In this context, we recommend that DISC 2A.2.5R(3) be removed.

We have similar concerns regarding DISC 3.2.2R(1)(a) and (c). Manufacturers should be responsible for preparing the product summary and core information disclosures required under DISC and for complying with their obligations under PRIN 2A, including providing relevant information to distributors. However, the additional overarching requirement in DISC that the product summary must "meet the information needs of retail clients" and "equip them to make decisions about the CCI that are effective, timely, and properly informed" may go beyond what is necessary. This approach risks adding complexity and duplication, given that PRIN already establishes clear principles in this area. A more proportionate approach would ensure that disclosure requirements remain focused and practical, supporting rather than complicating firms' ability to comply with their obligations.

Question 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.
We agree that any product summary should not have a prescribed layout or template and that a manufacturer must be able to contextualise its disclosures. We welcome further flexibility for firms to present the information in a way that meets the needs of their clients.

Question 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?
We note that this would represent a departure from usual regulatory practice.

Costs and charges

Question 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.
No. We have significant concerns about these proposals.

The proposed approach to costs and charges disclosures presents significant challenges for closed-ended investment companies. The current and proposed regulatory framework, which groups investment companies with open-ended funds and ETFs, fails to recognise the fundamental differences between these structures. Investment companies are publicly listed companies, meaning their share prices already incorporate all internal costs and expenses. Unlike open-ended funds, where costs directly impact net asset value and investor returns, investment companies operate within a market-driven pricing mechanism. As such, requiring additional point-of-sale cost disclosures is not only redundant but also risks misleading investors by emphasising and mischaracterising expenses that are already reflected in the share price.

It also poses issues for EIS funds which tend to have many tranches (often rolling quarterly, or annual closes), meaning investors will likely have very different investment portfolios depending on the timing of their investment.

A further concern is the FCA's proposal on aggregating various expenses into a single figure. Investment companies have distinct cost structures, including governance, regulatory compliance, and shareholder communication expenses—in effect, operating costs that are not directly comparable to those of open-ended funds. By forcing these operating expenses into a single number for comparability with fundamentally different types of investment products which charge investors fees, the FCA risks distorting the true financial picture. This aggregation and approach oversimplify the nuances of investment companies, making it harder for investors to make informed decisions and drawing attention away from more meaningful indicators such as investment strategy, performance, and risk profile. In addition, costs may also be contingent on certain events (e.g. exits) occurring.

Beyond the structural inconsistencies, the emphasis on cost disclosures could negatively influence investor behaviour. As the FCA has repeatedly reiterated with respect to the Consumer Duty and pensions, lower costs do not equate to greater value for money. A single, aggregated cost figure may discourage investors from considering funds including investment companies in favour of superficially lower-cost alternatives, even if those alternatives provide inferior long-term returns or are less suited to their investment goals. This cost-focused regulatory approach risks eroding diversity within the investment landscape, potentially pushing investors toward products that offer less flexibility and more limited access to certain asset classes.

A more appropriate approach would be for the FCA to acknowledge the distinct nature of investment companies and tailor its cost disclosure framework accordingly. Rather than imposing a one-size-fits-all model, the FCA should consider alternative disclosure methods that better reflect the realities of the sector. A breakdown of costs into meaningful categories, rather than a single aggregated figure or in a prescribed tabularised format which would add little value when comparing up-front event driven fees (e.g. on an investment-by-investment basis) vs. fixed or variable ongoing costs, would provide more transparency while preserving the ability of investors to assess investment companies based on factors beyond cost alone. Where charged, investee company costs vary enormously from company to company and therefore fund by fund (or tranche by tranche in the case of EIS funds) from an investor perspective. Predicting or modelling these with any certainty is impossible and could lead to misleading results – especially where there is a focus on including a single figure. Investment companies must also not continue to be forced into the position of having any identified costs disclosures misrepresented as direct fees or charges to investors.

Ultimately, while cost transparency is important, the FCA's current approach risks doing more harm than good. By applying an unsuitable disclosure regime to investment companies, the regulator may inadvertently damage the sector and reduce investor choice. A more nuanced, sector-specific framework is needed—one that recognises the unique characteristics of investment companies and ensures that investors receive relevant, accurate, and useful information. We are therefore supportive of as much flexibility as possible on narrative descriptions complemented by worked (hypothetical) examples to aide comprehension and reinforce understanding. Additionally, lower costs do not equate to greater value for money. Flexibility on narratives allows managers to further differentiate their product offering.

The government, regulator and industry have reiterated commitments to Mansion House Reforms and encouraging further DC Pension Scheme Investment into private capital. We would strongly encourage the FCA to work with pension scheme trustees, master trusts and platforms to ensure that any proposed cost disclosures meet their requirements.

Question 22: Do you agree with our approach to disclosing transaction costs? If not, please explain why.

In DISC 6.4.2R(1) and (2), we question the use of *financial instruments* as a defined Glossary term. This is because PERG 13.4 (Q28. What are transferable securities?) operates to include private/unlisted shares in the definition of *financial instruments* (as *transferable securities*). We assume that this is not the intended outcome in DISC, as investments in illiquid private companies are supposedly the subject of DISC 6.4.2R(3) and the corresponding methodology in DISC 6.4.7R.

Where retail investors invest into private capital, they are often advised meaning there is a dual fee aspect which needs to be considered – some of which is opaque to the manufacturer given it is the distributor who holds the underlying client relationship. Predicting or modelling these from a manufacturer perspective would likely lead to misleading results.

Question 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.
There are two layers of transaction costs – one at an entry point to the fund, and another at an entry (or exit) point to investments (a portfolio of 8-12 investments in an average EIS portfolio, 10-15 in an average Series B Venture Fund, possibly running into 100s for a listed venture fund). Calculating the latter with any certainty is very difficult. In these instances, understanding should be confirmed via narrative explainers.

Question 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?
We welcome the proposals to exclude costs incurred in the maintenance and commercial operation of real assets and gearing costs for closed-ended investment companies. Please see our response to Question 21 for our comments on the need for other product specific cost considerations.

Question 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.
No. Please see our response to question 21, in addition we would note that many funds have minimum investment amounts more than £10,000. Basing costs (especially fixed costs) on this amount leads to misleading results as investors could never invest the hypothetical investment amount. This is a fundamental flaw with the current PRIIPs regime, and one we are keen is not replicated in the proposed CCI regime.

Question 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?
The challenges posed by the MiFID costs and charges requirements have been significant and widely recognised. They have contributed to some of the most pressing issues faced by closed-ended investment companies and other market participants, with concerns remaining unaddressed for an extended period. Given this, we believe the FCA should take a holistic approach to reviewing COBS 6.1ZA.11R, the Consumer Duty in PRIN, the MiFID Org Regulations (and its replacement), and DISC. Ensuring that these rules—both individually and collectively—deliver cost disclosures that are clear, fair, and not misleading should be a priority. To date, this has been a challenge. This is particularly important as the FCA remains committed to broad cost disclosures across both products and services at all levels. However, we question how feasible this ambition is, given the evidence so far suggests it may not always achieve the intended outcomes. If the FCA continues with this approach, it must ensure that the relevant rules work effectively to support consumer understanding. In particular:

- **Reducing complexity for firms and confusion for consumers:** The current aggregation approach results in overly complex regulation and has the potential to create misleading outcomes—issues such as 'pull-through' costs and single-figure aggregation are clear examples. A more flexible approach would be beneficial, where costs and charges are separately identified and clearly signposted. This would allow firms to meet their various regulatory disclosure obligations (under COBS, PRIN, DISC, etc.) without unnecessary duplication.

- **Clarifying requirements for distributors of closed-ended investment companies:** It is essential that the combined effect of the rules—including those replacing the MiFID Org Regulations—does not require distributors or advisers dealing with listed, closed-ended investment companies to aggregate an investment company's operating costs with their own fees and charges. The current exemption should be made permanent, and there must be clear regulatory guidance confirming that distributors are not under any overarching obligation (including under the Consumer Duty) to aggregate these costs. Without such clarity, distributors would be required to overhaul their processes (including the EMT framework), leading to unnecessary complexity and risk of consumer confusion. Clear FCA rules and guidance are necessary to ensure this happens and to prevent retail investors from mistakenly believing that an investment company's operational costs are directly charged to and payable by them.
- **Ensuring continuity in regulatory changes:** We support the FCA's proposal to remove references to the PRIIPs KID or UCITS KIID in Articles 50 and 51 of the MiFID Org Regulations. However, it is crucial that similar requirements are not reintroduced in the FCA Handbook when the MiFID Org Regulation is repealed.

A more proportionate and well-integrated approach to costs and charges disclosures will be key to ensuring that consumers receive meaningful, accurate information while reducing unnecessary complexity for firms.

The FCA should provide template(s) of machine-readable file(s)

Risk and reward

Question 28: Do you agree that we should maintain a standardised horizontal risk score for CCIs? If not, please explain why.
No. The approach is over-simplistic and fails to recognise the complexity of the risks involved in investing in the shares of listed investment companies or venture capital trusts. It also fails to consider tax wrappers available with certain products e.g. SIPPs, ISAs, EIS funds, and VCTs which are nuanced and may offer certain downside protections for example loss relief on qualifying EIS investments. Many investment companies are listed on the London Stock Exchange (FTSE) and benefit from significant liquidity in the secondary market. VCTs also have targeted share buyback programmes which allow for windows of liquidity. In addition, the blended (often multi vintage) investment portfolio of an investment company or venture capital trust should be assessed differently to that of a standalone fund – similarly investments generating income, for example dividends paid by venture capital trusts, should also be considered in parallel to volatility indices. The consultation does not consider any of this nuance. Please see our response to Question 30 for further details.

Question 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.
Please see response to question 28. While we understand the FCA's intention to enhance transparency and investor protection, we have significant concerns about the approach proposed in this consultation, particularly as it shares many of the same issues as the PRIIPs risk score methodology. These concerns are particularly relevant given the FCA's reliance on volatility as the core metric for determining risk, which has been a central criticism of the PRIIPs framework.

The industry has long raised concerns about the over-simplification of the PRIIPs approach, particularly its failure to account for the diverse nature of investment products. For instance, equity funds, bonds, real assets, and private capital all have different risk factors that cannot be adequately captured by a single volatility measure. Closed-ended investment vehicles, which may invest in a range of asset classes with varying risk profiles, are particularly impacted by this limitation. The current PRIIPs risk score fails to distinguish between low-risk, diversified funds and high-risk, concentrated investments, which is a critical flaw that the FCA's proposal does not address.

Furthermore, the industry has highlighted how the PRIIPs risk score can distort investor behaviour. Many investors, when confronted with a high-risk score based purely on volatility, might opt out of investments that could offer significant long-term returns or diversification benefits, simply because these products experience short-term price swings. This distorts the risk-return decision-making process and may lead investors to favour low-volatility investments that fail to meet their financial objectives in the long run. The FCA's proposed framework, by not addressing this issue, could exacerbate these tendencies, leading investors to make decisions based on a superficial and inadequate understanding of risk.

A further issue with the PRIIPs risk score, which remains unaddressed in the CCI proposal, is the lack of differentiation between products with vastly different investment strategies. The PRIIPs approach does not adequately differentiate between funds with different investment horizons, gearing strategies, or asset class exposures. The FCA's risk score proposal risks suffering from the same limitation, offering investors a generic risk rating that does not adequately reflect the underlying characteristics of the investment products in question.

The FCA's proposed risk score for CCIs appears to be a missed opportunity to address the well-documented issues with the PRIIPs risk score framework. The reliance on volatility as the sole measure of risk does not provide investors with a meaningful or accurate assessment of the risks inherent in different products. We urge the FCA to reconsider this approach and develop a more nuanced risk score methodology that considers a broader range of risk factors and provides investors with a clearer, more comprehensive understanding of the investment options available to them. Without such improvements, the proposed risk score framework may inadvertently mislead investors and distort market behaviour, further compounding the problems already identified with PRIIPs.

Question 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.

We have concerns about the practical application of this change, particularly for "high-risk products" like Venture Capital Trusts (VCTs) and other investments with low liquidity.

While the FCA's intention to provide greater granularity is understandable, the proposal effectively becomes meaningless for most private capital related products that we expect will need to be assigned a risk score of 9 or 10 under the proposed framework. The FCA has indicated that products with characteristics such as low liquidity, infrequent pricing, or inherently higher volatility must be assigned risk scores at the upper end of the scale. For products such as VCTs or other closed-ended funds with similar characteristics, this results in a broad-brush approach that fails to reflect the nuanced nature of these investments. Please see response to question 28 for further information.

The problem lies in the fact that the upper end of the scale (9 or 10) already represents products that are classified as higher risk, but not all high-risk products are the same. The difference in risk profiles between these products is significant, yet the proposed changes to the risk scale provide little meaningful distinction between them. For example, a product that is structured so that you could lose more than you invest with a risk score of 10 is fundamentally different from a closed-ended fund with low liquidity, which may also receive a 9 or 10 despite having a vastly different risk profile.

This lack of differentiation means that the added granularity in the higher range, i.e. the move from 1-7 to 1-10, fails to serve its intended purpose. The distinction between a score of 9 and a score of 10 becomes effectively meaningless for these products. Both scores would reflect a high level of risk, but they do not provide investors with any more meaningful insight into the specific nature of that risk. In essence, this new scale may increase the perceived complexity of risk scoring, but it does little to improve investor understanding of the true risks involved.

The fundamental issue here is that volatility, liquidity, and investment strategy cannot be adequately captured by a scale that lumps together all "high-risk products" without providing context or a deeper understanding of the underlying risks. Granularity at the upper end only works if it can differentiate between products that, while all "high risk", carry different types of risk. Without these distinctions, investors are left with a system that potentially misleads them into treating very different types of risk in the same way.

While we appreciate the FCA's intention to refine the risk scale, we believe that the proposal fails to meaningfully address the diversity of investment products. The focus on increased granularity at the upper end of the scale does not add value for products like VCTs or low-liquidity funds. It seems erroneous that VCTs have been singled out and included within a list of highly speculative products where investors often stand to lose more the amount they have invested. VCTs are unleveraged and aim to deliver a stable NAV and generate income within a tax wrapper. These investments will still be broadly classified as highest risk and comparable to products that are structured in a way so that investors could lose more than they put in.

Question 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.
We consider it unlikely that firms will take advantage of this because of the risk of challenge, especially with the benefit of hindsight. It will also lead to an inconsistency in approach.

Question 33: Do you agree with the proposals for products within the high-risk category? If not, please explain why.
Please see our response to Question 31.

Past performance

Question 35: Do you agree with our proposals to require showing past performance? If not, please explain why.
DISC 5.3.1R (5) provides that, in relation to closed-ended investment funds, the performance information is the historical share price (as well as the historical NAV) per share for the relevant period. DISC 5.3.3R, however, provides that for funds (which includes closed-ended investment funds), past performance must assume that any distributable income has been reinvested (i.e. performance is total return rather than just share price). This is the correct approach and DISC 5.3.1R (5) should be amended accordingly.

It should be noted that EIS funds raise money in tranches (either quarterly or annually depending on the product) and then invest this over the subsequent 12–18-month period. As a result, past performance is less of a guide to the future than it would be for many other products. Flexibility should be allowed in this regard so the manager can present the metrics it believes are the most reliable indicators.

Question 36: Do you agree with our proposed requirements for a line graph for products that have past performance? If not, please explain why.
The graph for a listed investment company should show the NAV progression, share price progression, and total shareholder return index. This ensures that yield/dividend is also reflected, as it should be to give a total return. Other types of charts, for example a bar chart, could achieve the same objective so we would encourage flexibility from the FCA.

Question 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.
Private equity and venture capital are long term asset classes. Past performance data exceeding 10 years should be permitted where available and where it helps with user understanding in the view of the manager.

bvca
Invested in a better future

If you have any questions or points it would be helpful to discuss further, please contact Nick Chipperfield (nchipperfield@bvca.co.uk) and Tom Taylor (ttaylor@bvca.co.uk).

Yours faithfully,

Tim Lewis
Chair, BVCA Regulatory Committee