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Asset Management Market Study, MS15/2.2

We have pleasure in submitting our response to the above Report, which we have read together with its accompanying annexes.

First we would like to congratulate the FCA for shedding a light on both the profitability of active management today, and the poor outcomes for customers. We welcome this Report and generally support the analysis and the conclusions. The measured style of the published material makes the starkness of the conclusions very powerful.

The fact that journalists such as Anthony Hilton in the Evening Standard are referring to the current Report as "controversial" is a good sign that there may be a will to tilt the balance more in the interests of individual customers, or consumers.

The nature of the analysis carried out, concentrating as it has on the fund management sector, does mean that the full impact on the outcomes for ordinary savers of the way in which the financial sector works – and we mean here the total costs including advice, distribution and investment management – was not brought out in the Report. However, it is very clear from the Report that the FCA recognises this and is minded to take the issues further.

We believe that the issues identified in the Report are part of a wider set of problems in the ownership chain that lead to sub-optimal outcomes not only for individual savers and investors but also for individuals as employees and for the economy as a whole. For those wanting a really good understanding of these problems, we recommend two books by John Kay, *Other people's money* and *The long and the short of it (the subtitle of which is "a guide to finance and investment for normally intelligent people who do not work in the industry").* The way these problems manifest themselves is perhaps best captured as follows. There are three stages in the ownership chain between most individual savers and the underlying companies which they own. The first is financial advisers, the second fund managers, and the third is the senior executives and boards of the underlying companies. The way each is remunerated is effectively by taking an annual percentage of the individual savers' wealth. This is what the methods of "incentivising" senior executives and boards of companies now amount to, and since fund managers with the votes to control company behaviour use the same model themselves they can hardly be expected to reject the theory of incentives on which executive pay now rests.

The only way to achieve fundamental change is to tackle the basic "take an annual percentage of the clients' wealth" model at each stage in the ownership chain. **This model is directly contrary to the principle of stewardship, which is what acting in clients' interests should amount to.**

The scale and the scope of the underlying problems are outside the scope of the FCA to tackle alone. But the FCA may still be the most important regulatory body here, since its scope covers both retail financial advice and financial services generally, including investment management.

Overall comments on the Report

Overall, we believe this is a strong and effective analysis, and we agree with the Report's main conclusions. In this letter we touch on both these conclusions and the Report's proposals for the way forward.

For us, the most important conclusions of the Report are that competition is not working and that retail savers and investors in particular are getting a poor deal. It would have been helpful, however, if the Report had included at least some analysis of the opportunities available to retail investors as a whole. We believe that a "self-select" service, where you just pay the stockbroker a fixed annual charge, plus a fixed charge for each trade, and where you do not pay any fund percentages to investment advisers either, is the smart option for those with the knowledge and confidence to use it. Under this route, you don't have to select individual company stocks; you can instead buy ETFs if you wish. The trick is to avoid anything that pays a commission, in other words pretty well all the funds "promoted" on the major platforms.

The big question is how to help people make sensible choices; something is needed alongside the current "advice" model. It is our belief, given the inherent conflicts of interest between the customers and the financial sector as it currently works, that "help" is not going to come from the financial sector and it is also difficult to see how regulators can do it unaided. We think there is scope for considering how savers and investors can help each other; it is difficult to see who else there is that they can trust to act in their best interests. At the UK Shareholders Association, we will be directing some of our policy thinking in future to the theme of "savers take control of their own financial future".

Some specific comments on selected parts of the Report

1.58 Interim proposals on remedies

These are generally helpful.

There is a problem with an all-in fee to include trading costs, but an all-in fee to include everything else might be helpful as an *initial step*, along with detailed disclosure after the event each year of the cost of trading together with an explanation and discussion of these costs.

As a general principle, the regulatory response should recognise that there is an element of trial and error and learning as we go, hence the "initial step" comment above. And on the theme of learning, we would suggest that amongst the FCA's own advice network there should be individuals who have detailed operational knowledge of how fund management works but who have now retired and therefore have no reluctance to share their detailed knowledge in the public interest. An example would be a fund accountant responsible for implementing the unit pricing.

One important gap in the proposals is any meaningful information for customers on a fund management company's overall long term performance. The big marketing trick is to keep creating and closing funds so that there are always a few that can be pointed to as having a good performance over the last few years. The failures are quietly closed and forgotten. This could be countered by requiring the tracking and Reporting of the total money-weighted return over time for all of the funds within the fund manager's control. Once in place for a while this information would kill off the fiction that it is at all reasonable to think that it is worth trying to identify funds that will outperform the passive option in the future.

We welcome all proposals to delve further into the operation of retail investment markets and into the situation faced by individual savers and investors in managing their personal finances.

Chapter 5

Without commenting on individual paragraphs, we agree that platforms are an important part of the current picture. So long as they are permitted to take commission from funds, i.e. an annual percentage of their customers' wealth, they will have no incentive to encourage their customers to make the most intelligent and low cost choices. The test of this is whether Vanguard funds are permitted, since they are non-commission paying and are vastly cheaper than most of the competition. So we would disagree with the conclusions of para 5.23; platforms do present a problem. We welcome paras 5.57 and 5.58 on next steps.

Chapter 6

A lot of work has gone into Chapter 6, to prove what we already know. Competition is limited, active management is not generally worth paying for, and the industry thrives richly on misinformation and marketing. As para 6.5 says, retail investors tend to base their decisions on past performance. This is a very deep education problem, but the marketing of the industry works to keep the misunderstandings and misjudgements in place. See the suggestion on aggregate performance above.

Chapter 8, investment consultants

We have little to say here, apart from noting that some investment consultants have moved into the fund management business in search of more profits. This must surely compromise the independence of their advice.

Chapter 10, proposed remedies

We have given some comments under 1.58 above and will not repeat these.

We would support (10.21) risk-free box profits accruing to investors rather than fund managers.

Any work to make the impact of charges clearer would be helpful. However, we would caution against trying to find a quick solution here. Continual improvement and learning as we go is the right policy. We would recommend setting up a regular forum with representatives of individual investors that draws from the best available research on individual perceptions and decision making. There needs to be such a grouping at which the interests of the financial sector are much less prominent.

Further work on retail distribution: paras 10.67 and 10.68. We would very much support this.

UK Shareholders' Association: our perspective and motivations

To conclude, it may help to set our own perspectives and motivations in relation to the subject matter. The UK Shareholders' Association was founded in 1992 in recognition that there was no organisation to represent the interests of private investors. We are a voluntary body, modestly funded by members' subscriptions. Our members tend to be relatively sophisticated investors in that they take their own investment decisions; they tend to use investment funds, especially actively managed funds, less than the general population. We exist to help our members in the investment process, and we provide a network through which people with shared interest in investment can communicate with each other and represent their interests with outside bodies, government, etc.. However, in most of our representation activity we aim to take a more general public interest stance. There are two themes to this. The first theme is that we would like to see all individuals better informed and empowered in relation to their personal financial management, especially their long term financial planning. We believe that the scope for improvement here is considerable. We also believe that investing directly in shares would make sense for many more people than currently do so. This first theme is completely fundamental to the Asset Management Market Study. The second theme is the proper stewardship of companies, which is now very much in the political agenda (excessive executive pay, short termism, etc.), as reflected in the BEIS Green Paper. We believe that that the more people are interested, as long term investors, in the behaviour of companies, the better for society as a whole.

We believe that the operation of the asset management sector is more of a negative than a positive in relation to both of the two themes we explain above. First, it operates as a wealth extraction industry rather than as an agent working in the interests of its principals. And second, because the business model is based on taking an annual percentage of its clients' wealth rather than being truly aligned with their long term interest, there is little by way of incentive for the asset management sector to take a real interest in the quality of stewardship achieved by the boards of the investee companies. It is very important to note that there are a number of investing institutions who are exceptions to this latter point; some focus on the identification of high quality companies and holding them for long periods. Others focus on the behaviour of companies in terms of their impact on customers, the environment, their employees etc.. So there are instances where we, representing individuals as investors, work alongside investing institutions.

As well as this letter, we also attach as part of our submission a document written in 2012 addressed to the FCA in response to the document "Journey to the FCA" that was published in October asking for comments. This document was not specifically acknowledged, unfortunately, and no dialogue followed. However its content is almost all relevant to the current asset market study, especially the lack of effective competition that results from a lack of consumer knowledge and empowerment. Quoting from this document, in relation to the decision that the new FCA would have a new policy, risk and research division:

- *"I regard setting up the new division as a very important decision. However, I would suggest that the term "building our understanding of the markets" as potentially limiting if the objective does not include really understanding the whole wealth creation process and seeing consumer needs in this wider context. But I am sure that setting up a unit which is able to think independently without the continual pressure of the political imperative will attract the right people – and the right people will not be happy unless they are permitted to think very widely around the issues.*
- *Understanding the underlying issues must involve an objective understanding of the importance of expenses and the added value (or not) of active management – and being pro-active to ensure that the messages that the public get are honest on these points.*
    - *This will not be welcomed by the industry. But, as John Kay puts it, the markets are not there for the market participants, they are there to serve a wider need. So employment or pay levels in the financial services sector should not be an objective of the FCA."*

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20 February2017

Attachment: Response to "Journey to the FCA", December 2012.

JOURNEY TO THE FCA – COMMENTS BY CHAPTER

Foreword and introduction

I like the tone of these sections. In particular:

1. Emphasis on tracing problems to their core.
2. First intended outcome clearly stated – meet consumer needs, firms they can trust.
3. Implication that FCA will have a learning culture.
4. Recognition that consumers cannot always be expected to have the knowledge, information and understanding they might ideally have.
5. Staff with confidence to make decisions.
6. Recognition that things need to change towards the interest of the consumer.

Observations on these points:

- My experience of working in a regulator is that without a clear and deep understanding of both the objective and the subject matter, it will not perform as well as it could. I also fear that the opportunity for a really satisfying and stimulating working environment would be missed as well. Of greatest concern to me is that in the area of long term savings and investment, the senior policymaking staff may not contain significant numbers (if any?) of people with a deep and long held interest in and understanding of investment. This problem can be mitigated if there is recognition of the fact, and but it will not be mitigated, in my view, if you try and gain the necessary knowledge from the financial services industry bodies. Better to listen to "maverick" individuals, read widely, and then make your own judgments. Industry bodies play down the importance of expenses, which the document has highlighted well. It is also essential that your policymaking and research functions include enough people with the right basic skills and mind sets – I would suggest ideally engineers and mathematicians. What is needed is to have enquiring minds with mathematical aptitude within the mix. Economists do not automatically qualify, as they do not always seek to understand a problem in sufficient detail, but instead bring theories to bear.
- It is quite right to acknowledge that information asymmetry will always be present and that only a few consumers will be able or be prepared to work out what they need to for themselves. Hence the need for some form of "product regulation". However, whilst recognising this, I would be much more ambitious in terms of consumers helping themselves and each other. People are not as stupid as all that – but a huge block against the empowerment of individuals is the **systematic disinformation** promulgated by the industry which, together with the commission motive, has ensured that there is no way that the bulk of people can even start to work out "the truth" for themselves. There is as yet no clear answer to the "who to trust?" question, in terms of where to go to get information and understanding. Trusting firms in the industry is neither enough, nor achievable at all quickly. It is possible that some of those working in the industry have reached the point where they

now believe in their own disinformation, because they haven't been exposed to anything better, so there is a long way to go. Disinformation works to stifle effective competition; empowering of individuals encourages it.

- Confidence to make decisions requires not only knowledge and clarity of objectives. Doing it well also requires the organisation to be ready to admit mistakes and learn from them, both in private and in public – something which the both the public and private sector find difficult, but which is totally dependent on good leadership. I find the document encouraging in this respect.
- Meeting consumer needs goes a lot further than frequently understood. For example:-
    - Above all, consumers need a solution to the "who to trust" problem. This would need to be a body which speaks out publicly on the fundamentals of investment, which is clearly independent of the industry, and which helps facilitate solutions in the customer's sole interest. This would be so effective that many in the industry would do everything in their power to prevent such a body being created. The press are both a help and a threat – financial advertising is an important motivation, and journalists can be fed stories, thus giving them copy.
    - Consumers need the RDR implemented in full, and commission, including trail commission, on "non-advised" products banned as well as on "advised".
    - Apart from products which are easily understood and the prices easily comparable (motor and household covers are very competitive, little problem there), nobody getting a commission from a product will ever give decent advice. The "people won't get advice after the RDR" argument is self-serving and misleading. They never did get what they needed, they got sales. What they needed was more like counselling than sales - counselling based on a proper understanding of investment and much else besides. The attitude of some financial advisers is that they somehow "deserve" to be able to take a significant annual percentage of their client's assets.
    - Consumers need to make sensible choices of underlying assets, given planned time scales and personal circumstances. In my view, "sensible" for many people includes some direct holding of shares, and not just today's conventional "products". Once you have bought shares directly, holding them for years involves no costs at all; you have completely cut out all the middlemen.
    - They need to have choices available that are "efficient" in the sense of minimising costs.
    - These "efficient", i.e. ultra-cheap, choices need to be easily accessible, and most importantly need to be accessible direct from providers to the greatest degree possible, and without being forced to give anyone, such as a platform, an annual rent of x% of the fund. A simple, competitive "cost plus" model has to be made available and also widely known about. Mutual organisations may be the ideal solution for some functions, especially where (like asset management) the capital required is tiny in comparison with the assets managed.
    - Consumers need a sufficient understanding of what those assets do and don't do, and for that understanding to be placed in the context of what risks there are to be concerned about and what risks not to be concerned about. For example, there is nothing more stupid, when investing for the long term, than to be so concerned

about "volatility" of capital values in the short term that you end up with an almost certain awful result after inflation. For long term investing, the focus should be on owning and acquiring an increasing underlying stream of earnings – you can't achieve this and also worry about the "value" in the sense of the market value of those earnings. In fact you need to be able to rejoice when asset prices generally fall, if you are a long term investor. This is so fundamentally important that it is no answer to protect people simply by devising "suitable products". Customers need to understand the fundamentals, as do the regulators and, most importantly of all perhaps, the politicians (I can see educating politicians as ultimately an important by-product for your new Policy, Risk and Research Division). Simple enough, but totally impossible if they are being given a "you can have it all" message by vendors of financial products. Very few such vendors tell it clearly like it is – Terry Smith (of Fundsmith) is one very honourable and refreshing exception.

- An example of a "product" which breaks all the principles is a "bond" which offers an apparently high yield over a limited period but with a significant chance of major capital loss, and only a very limited capital gain if the related underlying assets do well. Such products are offered "without advice". However it is no coincidence that Selftrade, who occasionally send me messages about such products and whose basic service I find excellent, are owned by Soc Gen, a French bank, whose products are being pushed. I see no evidence of regulators coming down hard on this practice – I certainly would.

Creation of the FCA: new powers (chap 1)

Sounds promising. I am assuming that the FCA will have the power and preparedness to remedy the "who to trust" problem I set out above, by encouraging and giving appropriate protection to an appropriate body. This action would come under the "competition" and "empowering" heading.

Some aspects of a healthy competitive environment: the less sophisticated may be able to benefit from the actions of the more sophisticated. A good objective would be to **harness the power of example** in empowering and educating individuals. Providing the "get rich quick" nonsense is properly dealt with, and there are good places for people to go to find things out for themselves, there would be more good than harm in people sharing investment experiences with each other. Only a relatively few will ever take up the DIY challenge, and people's ability to do this will not be too correlated with wealth, but those who do make the effort and share ideas with each other will vastly improve the competitive dynamics of the market, to the benefit of everyone.

Protecting the perimeter (chap 2)

No comment.

Ensuring firms continue to meet our standards (chap 3)

No comment

Taking action against firms that do not meet our standards (chap 4)

No comment

Building our understanding of the markets (chap 5)

Again, this section is very encouraging. In particular:

1. New policy, risk and research division – emphasis on learning, and evidence-based policy.
2. Emphasis on root causes of market failures, including information problems and consumer errors.
3. Zero tolerance of absolute loss to retail customers in excess of £250m.
4. Preparedness to commission external work.
5. Aim towards a vision of "successful markets".
6. Recognition of importance of behavioural insights.
7. Proactively listening – including approaching consumer bodies before they approach you.

Observations on these points:

- I regard setting up the new division as a very important decision. However, I would suggest that the term "building our understanding of the markets" as potentially limiting if the objective does not include really understanding the whole wealth creation process and seeing consumer needs in this wider context. But I am sure that setting up a unit which is able to think independently without the continual pressure of the political imperative will attract the right people – and the right people will not be happy unless they are permitted to think very widely around the issues.
- Understanding the underlying issues must involve an objective understanding of the importance of expenses and the added value (or not) of active management – and being pro-active to ensure that the messages that the public get are honest on these points.
    - This will not be welcomed by the industry. But, as John Kay puts it, the markets are not there for the market participants, they are there to serve a wider need. So employment or pay levels in the financial services sector should not be an objective of the FCA.

  - Nor should "growth" in the financial services sector be an objective. Growth in people's ability to provide for themselves in retirement because of the emergence of a system that can be trusted would be a far more constructive angle on "growth". Growth in the financial services sector's income will simply mean even more money extracted from people's savings, even above today's egregious levels.
- I can think of one serious gap in consumer protection – it is the unsatisfactory situation surrounding nominee accounts. The one contingency that makes me worry, a contingency I do not know how to manage, is the loss of my investments in nominees from fraud – my entire pension is held in a self-select SIPP and this is largely unprotected – the compensation scheme is trivial and of little use in the context of this. I'm not talking about market falls, where what you own simply commands a lower market price and may not be a real loss at all. I'm talking about loss of title to an asset.
  - A fraud (or loss of title from any other cause) at a nominee could easily involve loss to consumers exceeding £250m
  - Nominees are currently permitted to be "pooled", so that the individual beneficiary is not visible on the company register. This makes it much more difficult to detect fraud. I would ban all pooled nominee accounts immediately.
  - Regulations require the use of nominees for a ISAs and SIPPs, so we have no choice but to use them. They are a utility.
  - I am not satisfied with a view that a fraud (or other form of failure) is "unlikely". It is possible, and the possibility, however remote, is completely unacceptable. Splitting a fund into multiple SIPPs would hugely increase the costs.
  - Pooled nominees drive a wedge between investor and the company so that participation in the company's governance and communication with the company is either impractical, expensive, or both. This can be dealt with by requiring dual names on registers.
  - The Kay review referred to concerns with nominees.
  - Even if the saver does not wish to make day to day investment decisions in underlying investments (obviously, most will not) it is in my view a very intelligent way of minimising long term costs to use a SIPP or ISA that charges an annual fixed amount (most vitally not an annual percentage of the funds) to hold securities of a diversified nature, be they open-ended or closed-ended funds. Passive funds are available which have minimal charges and which pay no commission, Vanguard being the most obvious example, and these need to be held within a SIPP in order to use them for efficient pension provision. Cost efficient options, with complete transparency and very low charges, are not available within an insurance wrapper, and only an insurance wrapper gives protection potentially above the FSCS limit.
  - So for properly advised consumers, not just very sophisticated ones, I would suggest that the catastrophic potential of uncovered losses at nominees is a very serious policy concern. I would place it very high on your opening list of issues, along with banning trail commission for unadvised as well as advised sales.
- On listening to submissions, both invited and uninvited, those from the industry need to be treated with a degree of caution – see the ft article by John Kay "do not listen to lobbyists", available here http://www.johnkay.com/2011/09/21/don%e2%80%99t-listen-to-the-lobbyists-they-never-go-away

- Proactively listening – measures to protect whistleblowers, especially their problems in getting employment, should be introduced or strengthened. A company (or regulator) with the right sort of culture should want to employ whistleblower types rather than be afraid of them.

Maintaining effective relationships (chap 6)

All very good. Points I would emphasise are as follows:

1. Listen to consumer bodies above the industry
2. Use people with deep knowledge of the industry to unpick the industry's motivations and the validity or otherwise of their "that's impractical" responses when they come.
3. Recognise that consumer bodies do not necessarily have as deep an understanding as they really need, so ensure the home team in the new policy, risk and research division gain as deep an understanding as possible as quickly as possible (I have some suggestions for this if they would be welcomed).
4. Retaining the Consumer Panel.

Accountabilty, transparency and measuring our success (chap 7)

As soon as I hear "measuring our success", I fear distortion of motives. Especially if advancement or pay are dependent upon hitting some target. The target may turn out to be inappropriate, and an excessive focus on the target is extremely likely to distract efforts from the right behaviour.

With one important caveat that I will explain below, I think the overall plan here is fine, especially the recruitment of a good mix of people. But I would like to see some recognition of the problem that regulatory work may be seen as a stepping stone to profitable employment in the regulated industry –this is at worst a corrupting factor. Ultimately, I would like to see the thinking done within the FCA leading into a "re-education" within the financial sector itself, and improving the culture within the sector by more than just regulatory power and enforcement. This may even belong specifically in the FCA's objectives.

It is important that the Board has a majority of people who are not beholden to the financial services industry in any way.

Comments on "measuring our performance".

1. I would certainly start with the objective that consumers get financial services and products that meet their needs from firms they can trust. But I would include the ability to hold shares directly and unencumbered by middlemen as a desirable consumer outcome.

2. All of the other objectives in the table on page 58 are OK, as are the 8 key success measures on page 59. I like the presumption in favour of rapid action.
3. But there are a few important gaps. Not all of these can be filled directly by regulatory action, but regulatory policy can aspire to facilitating solutions and not blocking them. Acknowledging and publicly discussing these gaps will ***require a degree of courage and leadership*** not yet **completely** evident in "Journey to the FCA", excellent and promising as it is. I am not discouraged by this, as the document is as much an exercise in listening as it is in telling, and it is more powerful to come out with the tough conclusions only after really thinking them through. I am also encouraged that staffing the Policy, Risk and Research Division with the right people, giving consumer groups access to them, and not stifling their discussions or publications, will lead to the gaps being identified and brought to prominence.

Brief discussion of the gaps, and three essential sources of reading.

First, I would not regard all these gaps simply as problems. I would instead regard addressing them as potentially transformative for our society. I see the corruption inherent in commission-based (especially trail commission) sales, and indeed the whole sales-driven "how much money can we make out of x", or "how can we achieve our high target return on capital" approach of the industry, leading not only to systematic customer detriment, but also leading to our whole ownership chain falling short of its potential to generate wealth and deliver it to the underlying owners. The "ownerless corporation" coined by Paul Myners exists because there is self-seeking where stewardship and fiduciary duty should be.

The problems with the ownership chain are well aired in the recent Kay Review. I see cleaning up the retail end of the ownership chain as one of a number of essential steps towards addressing the destructive short-termism identified in Kay. I feel the <u>Kay Review is essential reading</u> for all your staff, and similarly the following chapters from <u>Roger Bootle's book "the trouble with markets"</u>(2nd ed.): Chap 9 (saving capitalism from itself), Chap 10 (how you can survive the downturn – and prosper in the recovery), and the conclusion (the future of capitalism). Roger Bootle's analysis is brutal, especially about the "staggering" incompetence of many financial advisers on p278. Note also on p279 he acknowledges just one "investment genius". I would also add one more (large) source of essential reading for your senior and policy staff, namely <u>every single "Chairman's letter to shareholders" (stretching back to 1977) written by Warren Buffett</u>, all freely available at www.berkshirehathaway.com. If they don't have the appetite, indeed enthusiasm, to read these, I suggest they are not suitable for their positions. I would include all members of your governing structure in this.

Listing some of the gaps

Anyone who has read the three references above will I suspect already be aware of all of the items I list below. It is not meant to be a detailed list, just the main themes, and there are sure to be important things I have failed to include or haven't worked out yet.

1. An acknowledgement that the financial sector is "inefficient and exploitative" (to quote Paul Woolley) and that even if people save massively more, a more consumer-friendly financial services industry will extract far less rent and be materially smaller, employing fewer people.

2. The lack of a clear plan to address the greatest single gap facing consumers, namely that there is absolutely no body (or route) they can trust to obtain essential financial information and knowledge about long term savings (the money advice service is pretty wet on expenses – compare for example the approach taken by the (unfinished) site http://honestmoneynow.co.uk/). I know of few initiatives in financial education and advice for the general public (a good example is the Citizens Advice Bureaux, but again they have limited focus on long term investment) that objectively pursue the customer interest. Most online initiatives, whilst they definitely do some good (such as Motley Fool, and Money Saving Expert), still attempt to make money from commission. And I do not believe any financial education initiative which is financed and driven by the industry itself will ever address what people really need to know, which includes the fundamentals of investment, how to see through each of the self-seeking arguments used by the industry (e.g. see p 278 of Bootle) and the overriding importance of minimising expenses. **The important thing about a body answering the "who to trust" question is that it will point people to solutions that help them to bypass most of the expenses that the industry would take from them if less well informed**. For example I have a SIPP that costs me just £200 per annum, with no annual percentage charge on the fund, and which does not require the use of "funds" at all. It is virtually never discussed in the press.
3. The recognition that the "accepted wisdom" and supposed "best practice" in the financial advice business is utterly dreadful. I have recently checked the course material for the chartered financial planner qualification and it is full of the sorts of nonsense so rightly criticised by Roger Bootle. Far more of the current accepted wisdom needs to be jettisoned than generally realised. The fact that there are vast numbers of academics who have spent their lives teaching and examining highly mathematical nonsense, and therefore that they will hardly be supportive, is yet another reason for great leadership and courage within the FCA. I would regard Roger Bootle, John Kay (see also his book "the long and the short of it") and Terry Smith all as potentially useful people for the FCA to consult from time to time, confident that they will say what they think with no regard for your feelings. However, I think they are all likely to acknowledge that there are few important and relevant ideas not set out years ago by Ben Graham and Warren Buffett.
4. Whilst it is absolutely right to recognise that information asymmetry and uninformed consumers will always exist or even predominate, I would be a little more ambitious about learning and promulgating the essential financial lessons that the Policy, Risk and Research Division decide are the most important. Set up right, this division could be a fantastic place to work for the right people.
5. On another encouraging note, I think it would be appropriate for the entire team at the FCA to realise they are potentially part of something even broader than fixing "financial conduct". Improving the ownership chain will not only benefit the ultimate owners but also those working in companies and the UK as a whole. I can expand on this latter point, but I believe that companies that pursue a clear long term objective, supported rather than distracted by their shareholders, are not only more successful but also far more satisfying places for employees.

Some specific points in response to Annex A

Particular problems which concern me at the present time are as follows

- The persistence of trail commission to platforms from "unadvised" purchases, such as commission paying funds. I do not think platforms or anyone should be permitted to discriminate between types of investment chosen by their clients. I can buy equities for a fixed charge per transaction with no trail costs; the same should be true of all types of investment – so one should be able to buy Vanguard funds (the most obvious example) through this route without having to pay an extra charge. Incidentally, once this rule is in place, it will empower anyone to adopt a sufficiently diversified investment approach so inexpensively that it will transform the industry. Costs will drop dramatically and long term outcomes for investors improve accordingly.
- The fact that rights issues are so expensive for companies that they now hardly happen, which greatly disadvantages "ordinary" shareholders who cannot participate in placings. I would like to see regulatory attention paid to the problem of unintended consequences of well-meaning investor protection legislation.
- Mentioned above, but pooled nominees are both a disaster waiting to happen and a disastrous exercise in disenfranchisement of investors. Whilst it is not the main focus of the FCA, the encouragement of more people to invest in shares directly (making one's own choices through a self-select vehicle feels like direct investment), better financial education, especially into the fundamental characteristics of different investments over time and into the correct understanding and attitude to, and thus preparedness for, market fluctuations – would empower more people to make intelligent decisions. For some this would involve direct investment, and for a few of them would involve participation in the voting and acting as owners. There is evidence that the voice of the independent individual investor, in spite of his/her limited votes, can have a good effect, and anything is worth having given the lack of true stewardship on the part of institutional investors. This participation would be possible with nominee accounts that ensured that dual names were visible on company registers, both that of the nominee and that of the beneficiary who is the true owner.

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