State Street Corporation

Cuan Coulter
Executive Vice President and
Head of State Street UK
State Street Bank and Trust

Alex Castle
Senior Managing Director and
Chief Executive Officer
State Street Global Advisors Limited

State Street
10 Churchill Place
London, E14 5HJ

www.statestreet.com

May 22, 2023

Asset Management and Funds Policy Team
Wholesale Buy-side Division
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Via email: dp23-2@fca.org.uk

Re: Updating and improving the UK regime for asset management

Dear Ms Blackburn:

State Street Corporation[1] ("State Street") and its asset management arm, State Street Global Advisors (collectively, "State Street") welcome the opportunity to respond to the Discussion Paper ("DP") 23/2 issued by the Financial Conduct Authority ("FCA") on "*Updating and improving the UK regime for asset management*".

Our perspective in respect of DP 23/2 is broadly informed by our status as one of the world's largest asset managers and the responses provided represent the view of State Street Global Advisors, with additional contributions from State Street's UK-domiciled depositary and trustee entity, State Street Trustees Limited.

Our UK-domiciled investment management firm, State Street Global Advisors Limited has been operating in London since 1990 and ranks as a major investment manager in the UK, with total AuM of approximately £301.4 bn, of which directly contracted AUM comprises approximately £125.6 bn and indirectly managed by way of delegation comprises approximately £175.8 bn[2]. With a diverse client base including pension funds, insurance companies, official institutions, foundations, charities, local authorities, family offices and intermediaries, State Street Global Advisors Limited has over 270 professionals[3] responsible for activities including investment management, operations, legal, compliance, risk management, client service and marketing. State Street Global Advisors Limited manages a broad range of products and acts as the European trading desk for State Street Global Advisors' offices around the world. While we have an interest in the evolution of the fund structures for

[1] Headquartered in Boston, Massachusetts, State Street is a global custodian bank which specializes in the provision of financial services to institutional investor clients, such as pension plans, mutual funds, alternative investment funds, central banks, charitable foundations and endowments. This includes the provision of investment servicing, investment management, data and analytics, and investment research and trading. With $36.743 trillion in assets under custody and/or administration and $3.481 trillion in assets under management as of December 31, 2022, State Street operates in more than 100 markets globally.
[2] As of December 2022.
[3] As of December 2022.

alternatives investments, we primarily offer index and liquid assets solutions, and as a global asset manager our product strategy is designed around the possibility of offering to our clients different funds structure, including "1940 Act" U.S. funds and European UCITS and AIFs.

State Street Trustees Limited has been operating for 25 years providing comprehensive depositary services that meet the requirements of Undertakings for the Collective Investment in Transferable Securities (UCITS) and Alternative Investment Fund Managers Directive (AIFMD), including Non-UCITS Retail Schemes (NURS). State Street Trustees Limited acts as depositary for 42 clients with 481 funds having aggregate net assets of £312.2bn[4].

In recognising that the UK is a world-leading centre for asset management and a core portfolio management and functional hub for State Street Global Advisors, we believe it can continue to thrive if it is able to seize on the opportunities to enhance its competitiveness while moving towards an outcomes-focused regulatory architecture. We support the FCA and UK government's efforts to implement a regulatory framework that fosters competitiveness, innovation and the use of modern technology for the benefit of investors. These efforts will be successful if centred on an holistic view of what it is required to make the UK a globally successful investment management centre, looking beyond the narrow focus on rules in favour of a long-term vision of the industry based on some key outcomes: promoting innovation, facilitating cross-border business and ensuring that the UK continues to offer an attractive ecosystem for the fund industry.

While we understand the FCA's aspiration of creating a single rulebook for asset managers in the UK, we would recommend evaluating carefully the costs of pursuing this regulatory agenda against the benefits that can be gained in terms of competitiveness for the UK industry. Firms risks incurring significant costs and dedicating resources which could otherwise be spent on improving end outcomes for consumers. In this spirt, we invite the FCA and the UK government to consider prioritising the following high-level points in revising the regulatory regime for asset management.

i) As recognized in DP 23/2, many UK-based asset managers are part of larger groups operating internationally and serving international clients. State Street Global Advisors also offers EU-domiciled funds to UK investors. For this reason, we recommend that in making changes to the regulatory regime, the FCA seeks a high level of consistency, or at least, interoperability with laws and regulations of the EU, in particular in order that financial market participants can continue to manage their international operations efficiently and effectively whilst ensuring the appropriate levels of investor protection and market integrity.

ii) Within this context, we believe that the Overseas Funds Regime (OFR), which is still not fully embedded and operationalised, requires a higher prioritization in the regulatory agenda. Whilst we recognise that there is a mechanism to bring new funds of existing umbrella funds under the Temporary Marketing Permissions Regime (TMPR), this regime is closed to new umbrella funds with the consequence that those funds need to apply for recognition under s272 FSMA. Given the in-depth nature of the s272 assessment, this is not sustainable or efficient if the OFR operationalisation is only effective at the end of the TMPR in 2025. This may have the effect of reducing UK investors' access to new products authorised in other jurisdictions. Therefore, we believe that a greater effort could be placed on accelerating the consultation process noted in FCA's Regulatory Initiatives Grid.

iii) The UK continues to be seen internationally as a tax inefficient fund location compared to its international peers and finding a solution to tax inefficiency should remain a priority in the context of the UK Funds Regime review. For this reason, we would suggest to the FCA together with the UK

[4] As of December 2022.

Government to consider further what measures could be taken to make the UK more attractive from a tax perspective as a place to incorporate funds in order to improve the competitiveness of the UK fund industry while seeking to continue to encourage open access for UK investors to non-UK funds.

iv) Finally, as a major provider of index funds we highlight in the below responses areas where potential changes to regulation risk increasing costs without commensurate benefits for investors.

We also take the opportunity to express our support for the comments on DP 23/2 expressed by the Investment Association ("IA"), notably as regards Questions 3, 4, 5, 13, 14, 15, 16, 18, 21 and 23. Below we provide further insight on those questions where we feel we can add most value but we defer to the IA for the remaining questions.

We note in particular the importance of responses to Questions 14, 15 and 16 given technological developments and the future direction of travel of the industry. Tokenisation is likely to play an important role in how funds will be delivered in the future, with asset tokenisation and the desire to tokenise units, either in a two-tier approach or natively into the blockchain, playing a prominent role. We have noted under Question 17 a few examples of how other jurisdictions have started to address these issues.

Finally, in our capacity as a depositary and trustee, we have also contributed to the response submitted by the Depositary and Trustee Association ("DATA"). Given our position as one of the largest depositaries in the UK, we would like to underline our comments in response to Question 10 of this submission on clarifying certain aspects of the rules for depositaries.

Thank you once again for the opportunity to comment on the important matters raised within the DP. State Street is keen to continue being an active and constructive participant in this debate, and we remain supportive of efforts to strengthen the global position of the UK asset management industry. We look forward to contributing to these discussions with UK policymakers.

Please do not hesitate to contact either of us should you have any questions or if you would like to discuss our comments further.

Yours Sincerely,

Cuan Coulter

Executive Vice President
UK Country Head
State Street Bank and Trust (London Branch)

Alex Castle

Senior Managing Director and
Chief Executive Officer
State Street Global Advisors Limited

STATE STREET

Responses to individual questions

Q1: Do you think that we should aim to create a common framework of rules for asset managers? What benefits would you see from this? What costs might this create? If you do not think we should do this, are there any areas discussed above where we should consider taking action, even if we do not create a common framework of rules? What would we need to consider around the timing of implementing a change like this?

We understand the FCA's aspiration to ensure a level of consistency and consolidation across the rulebooks applicable to asset managers, but a better balance needs to be ensured between the benefits of a simplified single rulebook and the implementation costs for the industry in reviewing and implementing such changes. The Future Regulatory Framework process presents a once in a generation opportunity to move towards a outcome-based regulatory architecture and, as stated above, other areas could be prioritized to increase the attractiveness of the UK funds sector.

Asset managers operating in the UK (and particularly those with global businesses) have been subjected to a high load of regulatory changes in recent years, which have often required substantial financial and personnel resources for implementation and compliance. With more and significant regulatory changes coming in the context of the Edinburgh Reforms, Financial Services and Markets Bill and Sustainability Disclosure Rules, effort from supervisors and firms alike would be better spent focussing on an orderly implementation of these initiatives as a matter of priority.

Moreover, the degree of consolidation does need to be proportionate and appropriate, and should continue to ensure a degree of flexibility for managers depending on the activity being undertaken. For example, extending liquidity management rules to separately-managed portfolios may not necessarily have the desired impact, given that asset managers may only manage a proportion of an asset owner's assets and enforcing certain liquidity management techniques on that particular sleeve may not provide meaningful benefit for the client. In other words, liquidity of the manager's part of the portfolio may not be reflective of the client's overall risk. For separately-managed accounts, liquidity management is best governed through the investment management agreement entered into between the parties, which is able to take into consideration a client's particular circumstances. We note also that UK firms manage portfolios on behalf of overseas clients, who may impose obligations of their own through the investment management agreement. The FCA should thus be careful not to impose liquidity requirements that could be inconsistent with the outcome that a client is seeking to achieve via its investment management agreement.

More specifically, regarding paragraph 3.17 of DP23/2, we are not persuaded that there is a gap in the current regulatory framework for financial stability. The introduction of new requirements on portfolio managers to have an overarching responsibility for creating products that promote financial stability would arguably not be in each consumer's best interest and could reduce choice and diversification - e.g. some products are designed to allow the consumer to take views on negative market events or cycles which can provide diversification or hedging of investment risk.

Q2: Do you think we should change the boundary of the UK UCITS regime? If so, do you think we should take any of the three approaches set out here? Should we consider any alternative approaches? What

timeframe would be needed to allow firms to change their existing product offering or to develop new products?

In our opinion, UK UCITS should continue to be closely aligned with the European Union's UCITS framework; we are in agreement with the rest of the industry in considering UCITS as a globally recognised brand that should remain accessible to UK investors. Therefore we consider a priority the maintenance of consistency across UK and EU UCITS regimes which helps to reduce the risk of confusion regarding what a UCITS fund is, and also supports UK managers in marketing their UCITS funds overseas. Whilst State Street Global Advisors does not have any NURS funds in the UK, we note that the NURS framework demonstrates the most meaningful take-up and deployment of the Retail Alternative Investment Fund element of AIFMD. Overall, at this point in time, we consider the regime for retail funds as appropriate.

However, one area where we would suggest the FCA to monitor closely is in relation to eligible assets for UCITS. We continue to believe that the effective and prudent use of derivatives can play an important part in delivering good investment outcomes and risk management for retail investors, and this should be reflected in the future regulatory framework for UK UCITS, by avoiding any restriction on the use of derivatives.

Q6: Do you have any comments on us potentially amending the rules and guidance around liquidity stress testing?

We are fully supportive of the principle-based approach as adopted by ESMA for liquidity stress testing. However, we would not be supportive of changes to the rule and guidance that would lead to a prescriptive approach. The principle-based approach allows for flexibility in assessing and addressing liquidity risk, taking into account various factors such as the nature of the funds, their investment strategies, investor concentration, the market that they operate in and the potential liquidity stress scenarios they may face. We note that the ESMA guidelines are reflective of the limited nature of the role of the depositary in regard to liquidity stress testing.

We invite the FCA to reconsider its idea of fully removing the limitation around liquidity stress testing as mentioned in paragraph 4.11 of DP 23/2. In fact, isolated cases, e.g., funds with a single investor, may not be subject to the same redemption risk, if at all, as that of a less concentrated fund with, for example, two investors.

Q7: Do you have any comments on whether we should make our rules on liquidity management and anti-dilution clearer?

We support the full deployment of a strong and comprehensive toolkit for liquidity management and anti-dilution tools. Notably, as part of ongoing initiatives, swing pricing has become a recognised component of firms' liquidity management plans across the UK and the EU, and a Liquidity Management Tool ("LMTs") whose use remains with funds' managers, where they assess that it is necessary to protect the interests of existing/remaining investors in a fund against the costs of facilitating subscriptions/redemptions.

In considering whether the rules on liquidity management and anti-dilution could be clearer, we note that an important IOSCO workstream is currently taking place at the international level, and we would therefore encourage the FCA to take into account this work and seek to preserve the flexibility for managers to adapt the use of LMTs and anti-dilution tools to specific market circumstances and under the discretion of the fund manager.

While we understand the FCA's concerns around an inconsistent operationalisation of swing pricing across firms, we would caution against taking a too prescriptive approach and we consider consultation and dialogue with the industry to be essential in order to ensure that the rules are practically workable for fund managers and sufficiently responsive to changing market conditions. In particular, we do not support any changes to the rules that aim to be prescriptive in terms of approach to the calculation of swing factor and thresholds. The determination of the anti-dilution adjustment should be left in the hands of the fund managers with knowledge of the market and liquidity conditions. It is essential that rules facilitate a range of approaches for securing the best outcomes for investors. A prescriptive approach may over- or understate the anti-dilution factor potentially limiting the ability to act according to the particular circumstances of each firm and fund, as well as changing market conditions.

Q8: Do you have any comments on the benefits or costs associated with public disclosure of fund liquidity?

We believe that the potential cost and implication of such public disclosure may outweigh its benefits. Unlike general fund characteristics that are derived from holdings and market observable data, liquidity is generally more opaque and difficult to observe and quantify. The modelling and quantification of liquidity is highly model and data driven, and in certain markets, data may not be readily available or of good quality. Amongst other concerns, the possibility of differing liquidity outcome, for the same portfolio holdings, has the potential to mislead investors. Moreover, an underlying concept of UCITS is that investments are transferable and readily realisable, and liquidity should be aligned with the dealing frequency of the funds.

During periods of market and liquidity stress, such differences can manifest into inconsistent interpretation and may inadvertently lead to a run on a fund – with no negligence of the fund or its sponsor. Such an outcome may be difficult to manage or avoid altogether in an age of fast information exchange and rapid change in sentiment, e.g., driven by social media.

As noted in our response to Questions 9 and 20, from an index-fund manager perspective it is also important to note the risk and limitations on disclosing proprietary benchmark information. Benchmarks are an important aspect of our business and we rely on the work of benchmark providers to conduct their work with appropriate due skill and care. Regular compulsory stock level disclosure requirements affecting index-funds could impact the availability of benchmarks for product development based on the benchmark provider's inability to protect the proprietary information in their benchmark. Public disclosure of liquidity assessments could also provide third parties with insight into a funds manager's proprietary investment strategy.

With all things considered, we remain unconvinced that continued transparency on liquidity would bring real benefits to consumers. Moreover, the benefits are not properly articulated for the consumer in DP 23/2 and public disclosure of the liquidity classifications could be easily deemed to be confusing or misleading. Therefore, we do not consider public disclosure of fund liquidity to be beneficial.

Q9: Do you have any comments on us making our expectations on investment due diligence clearer for all asset managers?

Portfolio managers are required to make investment and security selections in line with the investment objective that they are managing to. Setting a minimum standard on investment due diligence may not suit particular investment processes and portfolios. For instance, portfolio managers of index-tracking funds typically seek to buy securities included in a particular benchmark. The securities that are invested in are generally some of the biggest and most established issuers within a given market and thus typically highly liquid. Additional due diligence requirements for index-funds managers may add an unnecessary overhead that may ultimately make funds more expensive to investors, without obvious benefits.

Q10: Do you agree that we should make our expectations of depositaries clearer? Do you have any comments on the areas where greater clarification would be desirable? Are there any areas where we should consider removing oversight functions from depositaries? Are there areas where the contribution of depositaries is particularly valuable for the interests of investors?

We address in turn the four questions raised here.

We agree that the FCA should make its expectations of depositaries clearer. DP 23/2 in paragraph 4.20 states: "our experience has been that depositaries have not always intervened or challenged fund managers although we would have expected them to […] our supervisory expectations of depositaries sometimes differ from depositaries' own interpretations of our rules". We would appreciate further insight and clarity regarding this statement. While we understand that the regulator needs to maintain confidentiality in its interactions with individual depositaries, we believe it would be helpful if, where feedback has been provided to specific firms, anonymised case studies and/or guidance could be shared with all depositary firms to help inform consistent standards and approaches across those firms and the wider industry.

Accordingly, we agree that making rules clearer would benefit depositaries, fund managers and investors alike. This would be particularly valuable in areas where the judgement of the fund manager is necessary in meeting the relevant requirements, for example in respect of prudent spread of risk or liquidity management. It should be noted that there are certain aspects of oversight where the role of the depositary is to understand how the manager has arrived at a certain decision and the governance in place around this process. Unless the requirements relate to prescribed investment restrictions, we do not believe it is the role of the depositary to impose its own view.

Regarding areas where the FCA indicates it is considering making its expectations of depositaries clearer, we would state the following:

- **Systems and controls to identify breaches** – It is the depositary's role to confirm, through its oversight, that the fund manager has established appropriate systems and controls to ensure that they remain compliant with applicable regulatory requirements. While in the course of its duties the depositary may identify a breach, responsibility for primary systems and controls to identify breaches rests with the fund manager and not the depositary.
- **Knowledge, resources, skills and experience** – The FCA should make its expectations clear where it believes that the scope of the depositary's role is evolving or expanding in line with industry developments, such as ESG. In such circumstances it is possible that the depositary is not in possession of the resources or experience and may need to increase headcount, update systems and/or upskill its workforce in order to comply with any change in the specific requirements it is expected to meet. It should also be noted that additional requirements on depositaries are likely to increase costs which need to be taken into account in terms of the impact on fees charged to funds (and ultimately to investors) and also, therefore, the overall competitiveness of the UK funds market. Where depositories are expected to meet new requirements the FCA should ensure that the extent of the depositary's duties are clearly set out, that the depositary has access to the required data[5] and analysis to undertake such additional oversight, and that such requirements are clear to all parties.
- **Actions to be taken when a breach is identified and what should happen if a manager doesn't take action** - While depositaries should notify the FCA of any matters that could reasonably be regarded as significant under COLL 6.6.11, we believe it would be helpful for the FCA to clarify that it remains open to informal discussions with fund managers and depositaries where fundamental differences of opinion exist. This could be of use in respect of breaches or other matters.

[5] This access to data is particularly important as any ESG obligations are developed given the cost of access to ESG index providers.

- **Depositaries' oversight of AFM liquidity management** – We note the paper 'Liquidity management for investment firms: good practice' and Dear Chair letter to AFMs, published in November 2019, as well as the work currently being undertaken by the FCA in respect of liquidity management, including in authorised open-ended property funds. We request clarity from the regulator if expectations regarding the extent of the depositary's role in oversight of AFM liquidity management are changing and that these are reflected in updated formal guidance.
- **Depositaries' oversight of AFM pricing and dealing** – We consider that the depositary industry approach to oversight of these functions is risk based and takes account of the requirements for managers as defined in COLL 6. If the FCA has identified any issues in this regard, we believe they should be addressed with proposed changes to the pricing and dealing rules, which would result in depositary processes being adjusted accordingly. In providing such clarifications, it is important to have regard to the specific duty of oversight and also the limitations on it.

Regarding the question of where further clarification may be helpful, we reference the DATA regulatory issues list, which has been shared with the FCA. We furthermore note that other regulators, including ESMA, currently issue Q&As, which are effective methods of providing relevant information to the market quickly. We believe it would be helpful if the FCA could issue similar communications where appropriate, particularly in the context of the UK's withdrawal from the EU. Finally, we would request that any rule clarifications recognise the clear distinction between the roles of the depositary and the fund manager.

DP 23/2 asks if there are specific areas where the FCA should consider removing oversight functions from depositaries. In our view, there are a number of areas the FCA could consider looking at further (and we would welcome additional dialogue on these matters), which include:

- Certain mechanical processes introduced following the implementation of the AIFMD such as reconciliations.
- Some aspects of cash flow monitoring, which in our experience do not provide meaningful benefits in respect of investor protection.
- Information requests received by depositaries from the FCA regarding fund flows greater than 10%. We note that some of these requests are for information or documentation not typically within the possession of the depositary, and as such this can become a time-consuming exercise for depositaries. In our view, it may be more efficient for such communications to take place directly between the FCA and the fund manager. Given the FCA's Data strategy is centred on making better use of data to spot and stop harm faster, we suggest the FCA looks at bringing appropriate data in-house so that it can directly identify changes in specific fund NAVs but then also see broader trends across the industry. This would remove the requirement for depositaries to be involved in such communications between the FCA and fund managers (notwithstanding that we, as a depositary, do our own monitoring of fund inflows and outflows as part of our liquidity monitoring).

Additionally, we note that prior to the introduction of requirements for an independent depositary book of record, the FCA issued guidance to the Depositary and Trustee Association in August 2016, which stated that an "AIF depositary need not maintain a duplicate set of custody records of the relevant assets as the appointed delegate, for the purposes of compliance with CASS 6". We believe that a return to this position would be of significant benefit to depositaries delegating custody without impacting investor protection given other reconciliation requirements and depositary obligations and liabilities. Further complications arise in certain custodial arrangements, in particular (as previously communicated by us) those involving collateral management, repurchase agreements, securities lending and prime brokerage arrangements. The triparty nature of these arrangements means that positions change frequently intraday, and it is generally not possible to source independent records of assets under these arrangements. In practical terms, this means that forming a depositary record for these type of custodial arrangements is likely to effectively involve taking a single report from the appointed party (e.g. the collateral manager) at the end of day on a daily basis and copying this into the depositary record.

It is our view that the depositary provides an essential, although not always visible, contribution to investor protection in ensuing that fund managers operate their funds in line with their disclosures and regulatory expectations. Furthermore, the significant collective shared knowledge and experience of depositary firms as a whole is an important element in supporting regulatory standards and ensuring investor interests are upheld.

Q11: Do you have comments on the analysis of the eligible assets rules for UCITS set out here? Do you think we should update or provide guidance on these rules? If we did so, what impact would this have for managers of UCITS funds?

As mentioned above, our main concern is for the UK regime to remain as much as possible consistent with the EU UCITS framework. Accordingly, whilst we believe no changes are necessary at this time, the focus when considering future changes to the UCITS framework should be on the protections around the use of investment products and strategies, rather than closing certain categories of asset classes in their entirety. In considering the range of assets and exposures deemed eligible for a UCITS fund to invest in, the focus should be on whether such assets and exposures can be offered in a manner consistent with prudent investor protection.

Q12: Do you have any comments on whether we should consider removing or modifying detailed or prescriptive requirements in the rules on prudent spread of risk?

At this point in time we do not see a need for broad change to the spread rules in COLL 5 and we believe there is value in retaining the sensible prescriptive limits.

We also note that the limitations of the depositary's oversight should be recognised in respect of the Prudent Spread of Risk requirement. The Prudent Spread of Risk is a matter of professional judgement for the fund manager and the depositary should not be expected to form its own judgements on portfolio decisions made within the scope of the investment limits set out in scheme documentation.

Q14: Do respondents agree that we should work towards consulting on rules to implement the 'Direct2Fund' model?

In addition to the comments provided by the IA, and notwithstanding the fact that under current proposals adoption of the Direct2Fund model by fund managers and depositaries would be optional, we would expect any impacts on the depositary to be fully considered in any work undertaken by the FCA to implement Direct2Fund.

Q17: How important do you think the different kinds of 'fund tokenisation' discussed above are for the future of the industry? Are there examples from other jurisdictions that could be models for UK fund regulation?

In the context of the wider digitalisation of capital markets, tokenisation is likely to play an important role in how funds will be delivered in the future. We would like to draw the FCA's attention to other jurisdictions which are active in this space and we would like to point at three specific examples which could help the FCA as it develops its thinking going forward.

First of all the Electronic Securities Act (*Gesetz für elektronische Wertpapiere*, so called "eWpG") adopted in Germany which makes it possible to issue bearer bonds, mortgage bonds and certain types of funds in a purely electronic format on chain.

Secondly, the MAS guidelines on digital securities in Singapore and the eVCC project in Singapore conducted by UBS, State Street and InvestaX, to investigate the feasibility of tokenizing a Singapore Variable Capital Company (VCC) natively onto the blockchain. The project explored VCC fund shares issued directly onto a permissioned and a permissionless blockchain. It also compared the benefits of blockchain native security tokens versus a two tier design using tokens as tokenized securities as part of MAS project Guardian.

Finally, Luxembourg is a third jurisdiction which could inform UK regulation in this area with the 1-3 Blockchain Laws governing the recognition of blockchains, allowing their use for the registration and transfer of securities, the second Law enforcing the legal framework around the dematerialization of securities and the third law, the DLT Pilot Regime Regulation.

Q19: Do you agree that improving the content and readability of the prospectus will improve investor engagement? What specific changes would you like to see?

The prospectus is first and foremost a key legal and regulatory document that provides an important level of disclosure to investors regarding the nature of the fund. The level of technical detail currently contained in the prospectus is suitable to achieve that goal but in our view it is not a good tool to drive investors' engagement.

Improved financial education would be the best means of driving more investor engagement. In addition, investors already have access to key information summaries, such as via Key Information Documents and factsheets and under the Consumer Duty, there is an increasing onus on intermediaries and manufactures to work together to ensure an appropriate level of understanding for their clients.

We welcome the initiative to promote more consistency in the way fund prospectuses are made available. We agree with the benefit identified by the FCA of creating a central repository for fund prospectuses, and agree that this would improve comparability as well as having supervisory benefits for FCA and firms. We note that this infrastructure works well in other jurisdictions.

In the face of growing regulatory issuance we would ask the FCA not to undertake a major overhaul of the form and content of the fund prospectus, at least in the short-to-medium term, as this would divert expertise and resources from other priority implementation projects and jeopardise more important outcomes for investors.

Q20: What changes to the rules for managers' reports and accounts could enable firms to make best use of technology to meet investors' information needs? How else could disclosure of ongoing information to fund investors be improved? For example would there be benefit in us consolidating ongoing annual disclosure reports for funds?

As stated in the previous response to Q19, report and accounts, like the prospectus, are not a key tool in securing investor engagement, and they serve a specific legal purpose. We do agree with FCA's statement in DP 23/2 that factsheets are more engaging, and more likely to meet this need. In terms of defining the content of factsheets, the feedback around suitability of content and frequency comes, in our experience, from intermediaries dealing directly with retail clients.

With regard to transparency of portfolios, we do not see a need for a periodicity defined by regulation outside of the annual report and accounts for the publication of portfolio holdings. We would argue that this cadence is defined by the underlying market depending on the nature of the fund's investor base, and the individual firm's appetite to provide that level of detail. For example, we publish holdings on a monthly basis for our funds. For our Money Market Funds, the publication is weekly. Clients for whom we manage a discretionary mandate would seek to negotiate the required frequency of holdings reporting in their investment management agreement, typically monthly or quarterly.

Whilst technology and reporting practices mentioned in DP 23/2 may facilitate increased frequency of reporting, we are not convinced of the benefit. Indeed, in some instances, such as frequent publication of portfolio holdings and weightings may be sensitive for index funds as a proxy for index data itself.

We note the merit of the aspiration to use digitally accessed data to increase engagement from investors. In light of consumer duty, consideration needs to be given to information not designed for retail customers being accessible to retail investors.

Q24: Do you have any comments on potential reform of the UK regulatory regime for asset managers and funds in areas that are in scope of this paper but have not been discussed in detail?

As said in the introduction, while we understand the FCA's aspiration of creating a single rulebook for asset managers in the UK, we believe that at this point in time the costs of pursuing this regulatory agenda need to be carefully balanced against clear benefits in terms of competitiveness for the whole industry. The FCA and the UK government should take a holistic approach to ensure UK competitiveness. While the FCA's DP 23/2 is welcome, a narrow focus on rules risks to be insufficient if action is not undertaken in other areas as well, particularly on tax and other costs.

So far, the UK continues to be seen internationally as a tax inefficient fund location compared to its international peers and finding a solution to tax inefficiency should remain a priority in the context of the UK Funds Regime review. For this reason we would support the FCA together with the UK Government in advancing the improvement of the competitiveness of the UK fund industry while seeking to continue open access for UK investors to non-UK funds.