

Financial Conduct Authority UK

FCA tells UK asset managers to prove they offer value for money

Regulator warns it will take action over firms that fail to make necessary improvements in wake of new consumer duty



The Financial Conduct Authority has said it will take action against asset managers if they fail to make improvements © Toby Melville/Reuters

Sally Hickey in London

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The UK Financial Conduct Authority has ordered asset managers to justify the fees charged on their funds, adding to the pressure firms are already facing from the rising popularity of cheap passive trackers.

The regulator on Thursday said a review of authorised fund managers showed that tensions between profitability concerns and assessments of funds' value for money were influencing how much to charge clients.

The rise of passive investing in recent years has spurred competition

within the industry, forcing some funds to reduce their fees and sparking a wave of consolidations as asset managers battle to cut costs to maintain their margins.

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However, despite the reduction, the regulator has sought to reform the way fees are calculated, arguing that some asset managers are still failing to provide good value for clients facing high charges.

Camille Blackburn, director of wholesale buyside at the [FCA](#), said: “It is vital that firms make sure they are not solely focused on a fund’s profitability over value for money for investors.” The FCA said it expected companies to make improvements where required and would take action where necessary.

Blackburn added that authorised fund manager boards and senior managers were responsible for ensuring value assessments were carried out properly and that issues were resolved quickly.

The warning comes after the implementation of the FCA’s consumer duty on August 1, which requires financial services companies to demonstrate they are putting customers’ interests first.

It also follows the introduction of rules in 2019, requiring asset managers to carry out annual value assessments and to appoint independent directors to the boards of authorised fund managers, after a report found evidence of weak price competition in the

sector.

In its latest review, the regulator hit out at directors, saying that most “did not provide sufficient challenge” to the information given to them about funds’ value for money, with some accepting it “at face value without probing further”.

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The regulator said many companies had justified their fees by claiming these were in line with their competitors. Others argued they would only consider cutting prices if these were found to be out of step with other firms.

“We consider that justifying fees solely based on a comparison with peer funds does not amount to meaningful compliance,” the FCA said.

The regulator surveyed 14 authorised fund managers between November 2022 and March 2023 for the review.

The FCA also highlighted areas of good practice, including some managers giving poor ratings to active funds that had underperformed their benchmark, even when their capital had grown.

But the regulator found evidence of firms relying on more “easily achieved” capital growth targets, instead of comparing their performance, fees and market risk with competitors.

One company rated an actively managed fund as having a good performance despite it underperforming the market benchmark by 10 per cent over five years. None of the firms assessed had reduced their fees for poor performance.

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