



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Baroness Altmann CBE, The Lord Livermore and The Baroness McIntosh of Pickering  
House of Lords  
London  
SW1A 0PW

22 March 2024

My Lords,

**RE: ALTERNATIVE INVESTMENT FUND DESIGNATION BILL DEBATE**

Thank you for your contributions during the Parliamentary debate on the Alternative Investment Fund Designation Bill. During the debate on 1 March, Baroness Altmann and Baroness McIntosh asked for clarification on the current legislative position creating the cost disclosure issue for investment trusts and Lord Livermore asked for further information on what the Government is doing to address industry concerns.

**Cost Disclosure – Legislative Position**

There has been some speculation that the current cost disclosure for investment trusts issue deriving from assimilated law – formerly retained EU law – is caused by the FCA’s interpretation of EU-inherited rules. Disclosure requirements for investment trusts are spread across multiple areas of assimilated law, including:

- **Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation** – detailed rules about disclosure, including on costs, for certain products which are sold to UK retail investors.

- **Markets in Financial Instruments Directive (MiFID)** – includes certain provisions which set out high-level requirements for investment firms to provide aggregated cost disclosure.

The Government understands that the FCA is interpreting EU derived cost disclosure rules appropriately and moreover notes that this is in line with the guidance of the European Securities and Markets Authority.

The government has not seen evidence to support your suggestion that other EU jurisdictions apply these rules in a different way. Instead, it seems that investment trusts which are listed in the EU, and captured by PRIIPs and MiFID, are treated in broadly the same way as UK investment trusts. However, given the specific concentration of listed investment trusts in the UK (representing around 35% of the FTSE 250) compared to relatively few investment trusts with equivalent structures in the EU, it may be that the effects of assimilated law have been felt disproportionately in the UK.

Therefore, it is the government's understanding that industry concerns with current cost disclosure rules cannot be further addressed by guidance issued by the FCA or government.

### **Cost Disclosure – Government Action**

The government recognises industry concerns regarding the impact of EU-inherited cost disclosure requirement on the investment trust sector and together with the FCA is working at pace to deliver the necessary reform.

In particular, at Autumn Statement 2023, the government published, for technical checks, a draft Statutory Instrument to replace the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation with a new UK retail disclosure. Alongside this, the government committed to make the necessary legislative changes to certain provisions in the Markets in Financial Instruments Directive (MiFID) which are related to cost disclosure.

This will enable the government and FCA to comprehensively reform the UK retail disclosure framework, including for investment trusts. The government will set out further detail on plans to deliver this reform in due course.

Thank you once again for your contributions during the debate. A copy of this letter will be copied to all who spoke in the debate and deposited in the House of Lords Library.

Yours,  
Charlotte

VERE OF NORBITON