



FBC REPORT:

DISTRIBUTION OVERSIGHT EXECUTIVE SUMMARY

MAY 2022

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INTRODUCTION

Distribution oversight is an increasingly important topic in the fund governance world. For fund boards, those executive and non-exec directors for whom the Fund Boards Council was primarily launched to support, the subject has seen increased regulatory guidance in recent years. In our view the subject warrants more focus, a view very much shared by a cross-section of fund board professionals we spoke to as part of this research. The benefits of effective distribution oversight are obvious.

- Ensuring sales to target markets are appropriate, ultimately ensuring customer needs are met.
- Commercial benefits from a robust, well-challenged distribution strategy.
- Risk management benefits in terms of reduced liquidity and reputational risk.

WHAT WE DID

FBC conducted qualitative discussions with UK, Irish and Lux ManCo and Fund board directors, both executive and non-executive, between February and May 2022. In terms of function, we deliberately sought views, not just from the obvious compliance/product heads and distribution governance staff, but also from conducting officers, designated persons, distribution heads, consultants, and solution providers.

The aim was to assess the current 'state of play' in terms of distribution oversight. Who does what? What are the challenges and difference based on the various regulations, current and prospective, from the main fund jurisdictions? And are there any 'good practice' examples we can share for the benefit of all?

KEY FINDINGS

Below are some of the key findings of the forthcoming report:

- Wholesale fund distribution is increasingly intermediated. While this has been the case in the UK for many years, the European platform market is now developing quickly. This creates fund 'look through' challenges for fund groups and puts greater onus on the flow of meaningful data from platforms.
- UK fund groups feel strongly that the Financial Conduct Authority (FCA) needs to mandate the provision of richer platform data.
- We observed some differing views around who is/what defines a UK 'distributor'. This compounds the issue and limits the effectiveness of Distributor Due Diligence (DDD).
- Despite these challenges there was common agreement from UK fund board executive and non-executive directors that more needs to be done.
- Regulatory focus on liquidity in recent years has reinforced the need for better fund 'insight'. For this to be effective distribution teams should be integral to boards' understanding of 'client liquidity'.
- UK fund board discussions around 'distribution' more broadly tended to get less focus and challenge compared to board discussions for Irish/Lux domiciled fund ranges.
- These 'offshore' fund domiciles benefit from more clearly prescribed regulatory guidance for DDD, especially in Luxembourg.
- Here the challenge of conducting initial and ongoing DDD has been partially met by integrating 3rd party tools into distribution oversight processes.
- A surprisingly large proportion of fund groups have UK funds plus some combination of 'offshore' UCITS structures and are seeking to embed a holistic approach that works for all fund structures, sometimes globally.
- In practice this means some groups are adopting the most stringent rules across all jurisdictions as part of a consistent 'good governance' approach.

KEY FINDINGS CONTD.

- Having a 'good governance' approach requires evidence of analysis and challenge of such data plus, increasingly, a broader discussion around distribution.
 - Understanding the distribution strategy
 - Challenging the distribution and marketing plans for new product launches
 - Overseeing the 'activities' of distribution, branches, new country entry etc.
- Qualitative discussion by fund boards is essential in addition to reviewing the output of quantitative metrics.
- From the discussions we had with Irish and Luxembourg professionals the lack of 'distribution knowledge' on fund boards and sometimes within regulators was cited as a challenge for these jurisdictions.
- The significant growth of UCITS ETFs poses additional challenges. Although DDD today is focussed on the relatively low number of Authorised Participants (the legal shareholders), data to enable client 'look through' and insight is simply not available currently.
- The strong growth of direct investing via platforms and apps is also an emerging Distribution Oversight challenge in the UK and Europe (lack of data again being the key issue).

NEXT STEPS

FBC's white paper on this subject, including some best practice suggestions, will be published in the forthcoming weeks and will be publicly available to download.

Given there could be potentially helpful implications on this subject that from the FCA's Consumer Duty initiative, FBC will schedule an 'early thoughts' webinar soon after the Consumer Duty policy statement and final rules are confirmed, currently expected by the end of July 2022.

For further information on FBC's work on product governance and distribution oversight go to <https://fundboards.org/product-governance/>.

FBC corporate members can also watch our recent event on this topic on demand here: <https://fundboards.org/events/exploring-distribution-oversight-and-best-practices/>.

In this session, FBC host, and distribution expert, Simon Hynes, and FBC director and senior adviser, Brandon Horwitz were joined by speakers, **Birgit Sammer**, Head of Distribution Oversight/Conducting Officer, Invesco Management S.A., **Chris Town**, Deputy Head of Compliance at Columbia Threadneedle Investments, and **Laurence Mumford**, Distribution Governance Director at M&G plc. The discussion included:

- the definition of the distributor.
- negative target market.
- client liquidity and liability liquidity in board data.
- risk appetite and risk management framework for ManCos/funds specifically for distribution.