

# Consumer Duty 'Fair Value Assessment' Framework Summary

## Context

In July 2022, the Financial Conduct Authority (FCA) published its final rules and guidance on the Consumer Duty. The 'Price and Value' outcome<sup>1</sup> requires firms to assess their products to ensure there is a reasonable relationship between the price paid for a product and the overall benefit a consumer receives from it. The rules that set how firms should comply with their obligations under the new Consumer Duty are set out in Principle 12 and PRIN 2A.

FinDatEx has updated the European MiFID Template (EMT Version 4.1) to help firms comply with the Consumer Duty regime in relation to the PRIN value assessment requirements for in-scope products. The following provides additional context to the proposed EMT PRIN value assessment outcomes and is separate from the Collective Investment Schemes sourcebook (COLL) Assessment of Value requirements.

## Methodology

The Consumer Duty sets out factors a manufacturer *must* consider and factors a manufacturer *may* consider when assessing whether or not a product provides 'fair value'. A product provides fair value where the amount paid for the product is reasonable relative to the benefits of the product.<sup>2</sup> Below we summarise the methodology used to conclude whether a product is expected to provide fair value over a reasonably foreseeable period.

## Performance

### **PRIN 2A.4.8 (1) the nature of the product, including the benefits that will be provided or may be reasonably expected and its quality**

Benefits may be viewed as any positive reward or outcome arising as a result of a client's investment in a product, for example, performance or return on investment. The assessment of expected value over a reasonably foreseeable period involves considering performance against a product's investment objective, benchmark, and comparison universe over a specific time period. The performance period is the length of time over which we expect the product to deliver its investment objective and/or the minimum recommended holding period.

## Quality

### **PRIN 2A.4.8 (1) the nature of the product, including the benefits that will be provided or may be reasonably expected and its quality**

Several factors contribute to the quality of the service offered to clients, for example, assessing whether investors are able to make informed decisions based on accurate and timely financial reporting and distributions, whether the complaints resolution handling process is effective, and the management of risk controls and risk events.

<sup>1</sup>PRIN 2A.4.

<sup>2</sup>PRIN 2A.4.1.

## Price

### **PRIN 2A.4.8 (3) the expected total price to be paid by the retail customer or that may become due from the retail customer**

The pricing of each product is assessed against both internal (see Comparable products and services section below) and external comparators (see Comparable market rates section below) where products have equivalent and comparable strategies. The costs of services incurred with providing each product range and the associated profits generated in providing such services is also considered (see Product range profitability section below).

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## Comparable products and services

### **PRIN 2A.4.9 (4) whether there are any products that are priced significantly lower for a similar or better benefit**

This is an internally focused assessment which involves comparing the fee set by Schroders against our open-ended fund range (inclusive of the Luxembourg fund range) and segregated mandates where relevant.

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## Product range profitability

### **PRIN 2A.4.9 (1) the costs incurred by the firm in manufacturing or distributing the product**

Manufacturing and distribution costs are included as part of the consideration of the profitability of each product range.

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## Comparable market rates

### **PRIN 2A.4.9 (2) the market rate and charges for a comparable product**

This is an externally focused assessment where the management fee and/or Ongoing Charges Figure (OCF)<sup>3</sup> is compared against a standardised group of peers. If any of these are highlighted as outliers, a subsequent review of the fees would be undertaken against an agreed smaller peer group with more directly comparable strategies.

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## Additional factors considered

### **PRIN 2A.4.8 (2) any limitations that are part of the product**

Limitations are viewed as relating to the scope of product investment objectives and investment parameters which effectively act as a limit of how the product would operate. Lack of market liquidity could also be deemed a limitation.

### **PRIN 2A.4.8 (4) any characteristics of vulnerability that retail customers in the target market display and the impact these characteristics have on the likelihood that retail customers may not receive fair value from its products**

Our fair value assessment review process takes into consideration the needs of retail customers with characteristics of vulnerability.

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<sup>3</sup>The OCF is made up of the Annual Management Charge (AMC) and other operating costs. The AMC is levied by the Manager and is used to pay the investment manager, financial adviser and distributor. Other operating costs include the costs for other services paid for by the fund, such as the fees paid to the trustee (or depositary), custodian, auditor and regulator.

## Governance and overall determination of 'fair value'

Each assessment undergoes a rigorous governance process, including challenge by the relevant internal governance committee and board. The role of the board includes reviewing, challenging and validating the methodology and each outcome. Schroders intends to carry out this value assessment on an annual basis for in-scope products.

### **Important information**

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