

## **PRESS RELEASE**

### **UK CLOSET INDEXERS TO INDEMNIFY FUND INVESTORS ALMOST FOUR YEARS AFTER BETTER FINANCE ASKED THE EUROPEAN SUPERVISOR TO INVESTIGATE THE ISSUE**

**5 March 2018** – Good news at last for some investors caught in “closet index” funds: fund managers will indemnify investors from 64 UK domiciled funds for £ 32 million following the UK financial supervisor’s investigation.

Closet index funds are funds that claim to be actively managed, and charge “active” management fees, but closely track the market indices (before fees), more or less like index funds (that charge much lower fees).

In 2014, BETTER FINANCE asked the European supervisor for a Europe-wide investigation of the closet indexing problem after the Danish financial supervisor raised this issue locally.

In 2016, the investigation by ESMA found that up to 16% of UCITS equity funds were potentially closet indexing ones. But ESMA did not sanction anyone and did not even disclose the suspicious funds, leaving investors in the dark.

Last year, BETTER FINANCE replicated the ESMA study, published the names of all suspicious funds, and, in addition, found that several of those funds violated the UCITS fund disclosure rules.

BETTER FINANCE congratulates the UK FCA for its courageous action against this highly detrimental and misleading practice. The UK FCA is the first EU supervisor to force closet indexers to indemnify the victims. We hope this good example will now swiftly be followed by the other EU supervisors.

The FCA should also quickly name the 64 offending funds to inform the victims and the other fund investors.

Guillaume Prache, Managing Director of BETTER FINANCE said: *“It is worrying that it took so long for the UK supervisor to tackle the issue, but even more so to see that so far most Continental EU supervisors have not followed suit at all, especially those who watch after important fund domiciles. Even the European Commission itself has so far not reacted to the cases we brought to their attention a year ago about potential closet index funds which - in addition - did not disclose their benchmark’s past performance in their Key Information Document (KIID), thereby preventing clients from being able to spot index hugging practices, and violating UCITS fund disclosure rules.*

*The current reform of the EU system of financial supervision must finally ensure a better enforcement of investor protection in Europe.”*

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