PENSIONS AND LIFETIME SAVINGS ASSOCIATION

22 May 2023

Financial Conduct Authority
12 Endeavour Square
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Sent to: dp23-2@fca.org.uk

DP23/2: UPDATING AND IMPROVING THE UK REGIME FOR ASSET MANAGEMENT

Dear FCA,

We appreciate the opportunity to respond to the above discussion paper.

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

We have engaged directly with our members to gather these views and we are facilitating a discussion between the FCA and members in the near future.

Asset management common framework

Question 1 - Do you think that we should aim to create a common framework of rules for asset managers? What benefits would you see from this? What costs might this create? If you do not think we should do this, are there any areas discussed above where we should consider taking action, even if we do not create a common framework of rules? What would we need to consider around the timing of implementing a change like this?

The PLSA supports the work being conducted by the FCA to modernise the asset management regime to improve outcomes for UK markets and consumers. However, we have some concerns about the creation of an asset management common framework as it is being suggested in the paper.

While we certainly see how rulebook consolidation might be desirable in principle, this needs to be considered in the context of additional and changing regulation the industry is also coming to terms with, and the capacity of the industry to respond appropriately.

The current frameworks as they stand are embedded in the processes of UK asset managers, and work well for UK institutional investors. Remaining close to the EU is important for this sector, as many of pension schemes invest in funds in these countries and operations should be seamless.

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The PLSA would support adapting the existing rulebook to address any existing discrepancies, as we perceive the creation of a common framework as an initiative which would increase the cost to asset owners for a limited return. We think there may be opportunities to identify and address commonalities and duplication, particularly where this creates uncertainty in interpretation of regulation in a way that is more proportionate than wholesale rulebook consolidation.

The PLSA does not believe that tightening requirements for portfolio managers to take greater account of financial stability risks should be thought of as an efficient mechanism for mitigating events like last year's liability-driven investment (LDI) issues. Also, there is a risk to fiduciary duty if the ranking of priorities is changed and financial stability is placed at a higher level above the interests of asset managers' clients. This was evident in the LDI crisis, when firms needed to sell gilts to protect their clients' portfolio, but in doing so that was increasing the issues the market was grappling with.

The PLSA is also concerned with the fact that rulebook consolidation could drive blurring of the distinction between retail and professional clients, raising barriers to investment for the latter and increasing burdens on the industry.

Liquidity stress testing

Question 6 - Do you have any comments on us potentially amending the rules and guidance around liquidity stress testing?

The PLSA supports the FCA's intent of expecting firms to comply with the liquidity stress testing guidelines issued by the European Securities and Markets Authority (ESMA). We would also support the use and adaptation of international standards in this area.

One important aspect which should be considered in stress testing is the impact on asset managers clients and their duty of care. For example, the LDI crisis saw managers closing down positions even where cash was available to defend the hedges, which was within their terms of business but not necessarily helpful for their clients. Similarly, we know that some funds – typically property – have the ability to 'gate' in times of stress, which may be exactly when a symmetric event is driving liquidity from clients.

The PLSA would also like to point out that current existing dilution rules represent a high standard and if the FCA wants to reinforce best practice on liquidity management, then guidance would be most helpful rather than new rules.

If you have any queries or require further information regarding this response, please do not hesitate to contact me.

Best regards,

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