PENSIONS AND LIFETIME SAVINGS ASSOCIATION

8 May 2017

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Chris Cummings
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Dear Chris

PENSIONS AND LIFETIME SAVINGS ASSOCIATION RESPONSE TO THE INVESTMENT ASSOCIATION DRAFT DISCLOSURE CODE CONSULTATION

I am writing on behalf of the Pensions and Lifetime Savings Association in response to the Investment Association's consultation on the draft disclosure code published in March. The response deals in particular with the IA's request for views on whether the draft code covers the relevant information at the right level of detail for clients of the investment industry. It also sets out our view on how the code can be best implemented and managed in a way that serves clients' interests and the wider economic interest more generally.

Asset owners' priorities

The Pensions and Lifetime Savings Association is a long-standing advocate of investment industry transparency and cost disclosure. Our response to the 2015 Department for Work and Pensions 'Call for evidence' on pension funds' transactions costs disclosure' was supportive of improved transparency, and noted that in order to achieve this, better disclosures would also be required of the asset management industry.

As such, we are strong supporters of the Investment Association's work developing a framework for the disclosure of the industry's costs to clients. The PLSA and a number of our members are represented on the IA's project advisory board, and will continue to engage with the IA as they incorporate the responses to this consultation into the final code.

Our pension fund members' priorities are for a code that enables consistent comparison of the costs of investing through asset managers' in a format from which key information for communication to scheme beneficiaries can be extrapolated.

Support for draft code

By and large we believe that the IA's draft code represents a significant step towards these objectives and are supportive of the proposed template.

The code covers the key information in terms of information on performance and different types of costs that accrue to pension funds, at the right level of detail. We are supportive of the IA's approach to implicit costs. In the likelihood of the FCA requiring asset managers to include 'market impact' costs as part of their disclosure of implicit costs, we support a further disclosure separating out the bid/offer spread from other market impact costs.

Like explicit transaction costs such as commissions, research fees or transaction taxes, the spread effectively represents a payment to a single counterparty. This is a single and readily identifiable component of a transaction. Contrastingly, trading costs attributable to market impact, are more difficult to calculate and there is no single beneficiary from value lost to the client. As such, clients can infer useful conclusions regarding the costs and value of their investments if the spread is disclosed as a separate figure and as part of the total implicit costs.

Clarification and implementation

Our members have highlighted certain specific disclosures that may prove challenging in either reporting or interpreting under the code's proposed format. For example:

- For 'funds of funds', will it be possible to aggregate the different types of data from each asset manager? This could be particularly complicated if the different managers calculate their costs over different timeframes. It may be the case that this necessitates more direction in the code as to the timeframe within which all costs should be disclosed.

- For pooled funds, the different ways in which administrative costs for entering and exiting the funds are charged in different ways – for example through anti-dilution levies or through a swinging price mechanism. These serve a similar purpose but are listed separately on the draft template, potentially resulting in confusion.

- For 'with profit' funds, which aim to maintain consistent annual returns to investors by holding back payments in years when returns are high and supplementing them when they are low, the annual transaction costs in relation to returns maybe mis-leading

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(though this would hopefully be offset by the requirement to disclose returns over multi-year periods).

- There is a risk that the range of different costs covered by the 'other' field in the section on transaction costs in the template will be significant – particularly if asset managers are deliberately opaque, or if the template is used for alternative asset classes.

However, even allowing for these concerns, the template will provide welcome insights in its current form, and we would urge against delaying its introduction. Inevitably the resolution of existing and arising concerns will become clearer as the code is used.

Ongoing oversight

The IA notes that the operation of the code will be an evolutionary process and is rightly consulting on how ongoing reviews and amendments to the code should be managed and overseen post-implementation.

It is important for the investment industry to be involved in this process but independent oversight is vital for the code's credibility.

Ultimately, the purpose of this information is for it to be useful for clients of asset managers, who can the use it to inform their understanding of the value that they receive, leading to a more efficient market and therefore better outcomes for investors. As such, it is the clients who are best positioned to understand if the code has been a success and they should have a key role with regard to ongoing development and maintenance of the code. A governance body comprised of investment industry clients including pension funds plus other expert stakeholders from industry and academia could be established, working alongside the Financial Conduct Authority to manage this process.

This would help to build on the valuable progress on transparency and the useful template that the IA and the advisory board have delivered through this initiative to date.

Yours sincerely

Luke Hildyard
Policy Lead: Stewardship and Corporate Governance

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