Response to the FCA Consultation paper: Transaction cost disclosure in workplace pensions (CP16/30)

General Comment

We strongly support the mandatory disclosure of detailed transaction costs to trustees. We also believe that simplified disclosure should be required for members (with full disclosure available for those members who would like to receive it). We believe that both forms of disclosure should be made on a standardised basis.

Response to questions

Q1: Do you agree that our proposed rules will enable information on transaction costs to reach governance bodies? If not, what alternative(s) would you propose?

Yes. Standardised disclosure is necessary in order to ensure that purchasers of asset managers' services are able to compare the true costs of different providers. It also reduces the costs of compliance, which ultimately come from those contributing into pensions.

We believe that effective disclosure of all costs incurred in the management of investment assets is necessary not just for the market in asset management to operate more effectively but also for the downstream market in pension schemes to also operate more effectively.

We expect that the disclosure of the true costs of investment will be a factor leading to more consolidation in the market for pension schemes and that this will be to the benefit of employers and employees contributing into pensions.

Q2: Do you agree with the approach set out for calculating transaction costs? If not, what alternative(s) would you propose?

We agree that the calculation of transaction costs must include the implicit costs. We also recognise that there is no perfect methodology for calculating transaction costs and that any methodology will have its weaknesses as well as its strengths.

There have been concerns expressed that the FCA's proposed methodology for assessing implicit costs will lead to fund managers on occasion reporting negative costs to IGCs and trustees and this in turn might encourage fund managers to manage purchases and sales to artificially generate such figures. Reporting of negative costs could lead to confusion for pension scheme members to whom this information will ultimately be reported. As it stands, the FCA consultation document does not deal in detail with the critique made and thus does not sufficiently explain why on balance one methodology is superior to another.

Q3: Do you agree with the proposals in this chapter? If not, what alternative(s) would you propose?

As response to Q2 above.

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Q4: Do you agree that our proposed rules will enable pension arrangements and funds that invest in other funds to amalgamate the total transaction costs from underlying funds?

Yes, and given that much of the investment into workplace pensions is invested in funds that invest in other funds, it is very important this is captured.

Q5: Do you agree that transaction costs should be amalgamated on the assumption that underlying funds incur them evenly over a reporting period? If not, what alternative solution(s) would you propose?

Yes, this is a reasonable approach.

Q6: Do you agree that the approach set out in this chapter is adequate to provide governance bodies with sufficient information to assess transaction costs? If not, what alternative(s) would you propose?

(i) Para 6.4. is ambiguous. It currently states "We propose that asset managers should provide transaction costs on request, as a total cost with a breakdown into categories of identifiable cost. We propose, in guidance, that these should include taxes, explicit fees and charges, and securities lending costs."

Our understanding of the rule changes proposed in Annex B is that the total cost figure must include implicit costs as a category. The wording in para 6.4. could, however, appear ambiguous and suggest that the mandated total figure comprised only of categories of identifiable cost. We are strongly in favour of asset managers having to provide information on all transaction costs, not just explicit ones, on a mandatory regulated basis - but we agree that a total figure which includes implicit costs rather than splitting out different types of possible implicit cost is sufficient.

(ii) We hope that the government will also require standardised reporting of transaction (and other costs and charges) to members. It would facilitate employer and employee understanding of pension products and ability to choose between them if reporting were standardised. We would expect that the requirement for disclosure to members would be on a simplified single figure basis - except where members wanted to see the full disclosure of transaction costs, in which case this would be available. We do, however, recognise that there could be tensions between transparency to members and competition law restrictions on the exchange of commercial information. It would be helpful if the FCA were to provide guidance for trustees and IGCs on how best to meet any competition law concerns.

(iii) We are not convinced that trustees of the tail of small sub-scale schemes will necessarily be able to assess, even after disclosure, whether they are paying excessive transaction costs. It would be helpful if trustees of schemes that are unsure as to whether they are subject to high costs were able to submit their future cost disclosure to a regulatory body (or an agent employed by it) and ask for a preliminary view as to whether the figures met best practice or not.

Q7: Do you have any comments on our analysis of the costs and benefits of introducing rules on transaction cost disclosure?

The assessment of benefits appears reasonable to us. See response to Q2 regarding the analysis of costs.

More information

Other one-pagers from The People's Pension can be found at www.thepeoplespension.co.uk/onepagers. You are also welcome to contact Andy Tarrant, Head of Policy & Government Relations at andytarrant@bandce.co.uk or 07515 121204.