THE TRANSPARENCY TASK FORCE

18th December 2015

INITIAL THOUGHTS ON SCOPE IN RELATION TO THE FCA'S ASSET MANAGEMENT MARKET STUDY

1. The purpose and status of this document

This document has been put together by members of the Transparency Task Force (TTF) to outline why we think the FCA's Asset Management Market Study should be extended in scope.

It is not a response to the Market Study per se; it is just our thoughts on how and why the scope of the Market Study should be extended.

Furthermore, it should not be assumed that the views given reflect those of all members of the TTF; given the timeframe to provide an initial response to you by 18th December we have only engaged with members of our various teams on this matter so far i.e. we have not liaised with the 5,000+ individuals to whom we send the Transparency Times, our newsletter.

As you would expect many of our members and the organisations they represent may feed in their thoughts to you independently of the TTF.

2. About the Transparency Task Force

As we are a new organisation it makes sense to provide some background:

The Transparency Task Force (TTF) held its first meeting in May 2015, to gauge the appetite for a new and wholly independent body dedicated to driving up the levels of transparency in financial services, particularly the asset management and workplace pensions space.

We are perhaps unique in being made up of a truly pan-industry cross-section of members, trade bodies and professional associations and as such are well-placed to establish consensus that does not merely reflect the wishes of one particular "tribe" or another.

The TTF believe that high levels of transparency are a prerequisite for financial services markets to be fairer, safer, more efficient and more likely to deliver better value-for-money.

We seek to effect the change that the financial services industry needs and the public deserves, right around the world.

Market reaction has been extremely positive and supportive; so much so that in just a few months a campaigning community has been formed, focusing its energies on six key areas through six teams of volunteers. The six areas of focus are:-

- Data
- Transaction Costs & Charges
- The Rationale for Decision-Making
- Stewardship
- Terms & Conditions
- International Best Practice

Please see the tables in the Appendix - they have been included to evidence the expansive and inclusive nature of our membership.

They show which individuals are in which teams and those in bold red are Team Leaders.

3. Our thoughts on how scope should be extended, and why

It is felt that the FCA's Asset Management Market Study has created an excellent platform for much-needed change and its intention to explore ways to drive up value-for money through improving the competitiveness of the market are very worthwhile goals.

We have high expectations that meaningful outputs will be achieved and as such but do not want important areas to be overlooked; we believe there is a risk of that given the current scope.

The table below provides an outline of other matters that we think should be brought into scope, and why:

	Issue	Why is it important?	Potential detriment to the consumer if not addressed
1	**Data standard**	The Terms of Reference refers to technology and innovation which are of course good things for the market to have more of. However we feel that an industry-wide agreement on a data standard would represent a major innovation; a breakthrough. We therefore want the Market Study's scope extended to specifically include the development of a data standard or for the development of a data standard to be deemed permissible as an "innovation".	The consumer and/or his/her agents require good quality data to be able to make appropriate decisions. Difficulty in accessing such date leads to consumer detriment. They may unknowingly be making poor decisions. Furthermore, it is unnecessarily expensive for market participants to supply data in a bespoke, ad-hoc manner. The cost may prohibit the supply of the data altogether; if it is supplied the consumer will ultimately pay for it.

		The development of a data standard is something we are working on, alongside other parties, and would like to comment on further. A data standard will improve competition, market efficiency and drive up value for money. There is an information imbalance between market participants and Trustees/IGC's/investors. They are unable to access clear, simple and actionable data ahead of/ during/ after dialogue with advisers. Data is often reported in an untimely manner, lacks quality and is without consistency/standardisation. Important relevant data is not reported. Data is "verified" by the market participants so should not be relied upon (but often is!) It can be difficult and challenging for the end user to verify data. Sometimes there is a "spin" put on how data is presented, e.g., it may hide lacklustre returns, excessive risk/ charges. There are no well-developed independent open resources for sharing or comparing data for trustees and investors to access. There is no commercial imperative for market participants to change the status quo. Communication of data can be challenging; Investor	There is a direct correlation between good data and good outcomes; the reverse is true.

		engagement and understanding is very often lower than it ought to be. A data standard is needed to enable better data evaluation and benchmarking by Trustees/ investors, thereby enabling better-informed decision-making and improved understanding. This will then lead to better public engagement and increased demand for investments. Critical for success is to create a data framework that won't simply be "gamed" by the industry. The standardised data set needs to be relatively simple to collate yet sufficient to consistently and reliably monitor. All market participants should be encourage/mandated to comply with a Data Transparency Statement that confirms they are providing data to a specification developed by the industry. Developing a data standard will enable effective market competition and better value for money.	

	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
2	**Transparency**	A lack of transparency is at the heart of many of the points covered in the terms of reference. Whilst we acknowledged that other regulatory initiatives have considered the subject of transparency they have not done so from the perspective of value for money and the competitive efficiency of the market. As such some aspects of transparency have not yet been adequately dealt with. The opacity / lack of transparency / lack of meaningful disclosure of transaction costs, particularly implicit (e.g. bid/offer spread, market impact) is a substantial hindrance to market competitiveness and value for money for the consumer. We are working on an approach that will consistently capture, measure and benchmark costs/charges in a way that is meaningful to all stakeholders in a standardised format.	The consumer (retail or institutional) will only be able to make informed choices if the consumer has access to all relevant, meaningful information in a usable form. Failing to pay adequate attention to transparency will mean that the asymmetry of information that exists between suppliers and consumers will persist, thereby jeopardising the achievement of an efficient market that delivers value for money.
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
3		If advisers, asset managers, trustees, IGC's and so on are	A lack of scrutiny leads to a lack of accountability and a missed

	Rationale for decision-making	not required to explain the rationale for the decisions they make there is no basis to scrutinise what is being done and why it is being done. This allows the continuance of the problem that the interests of all stakeholders are not aligned. As there is no requirement to report there is a lack of transparency around whether members' interests are properly represented. With human nature being what it is, no-one wants to report if their activities/decisions detract value. This explains why Myners was not implemented by the market - Myners was not made a regulatory requirement; self-assessment = no assessment is allowed to continue and that's a problem	opportunity to reflect and evaluate the impact of the decisions being made. In the retail space there is a "reasons why" letter; something similar would help to better protect the interests of the consumer
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
4	**Stewardship and sustainability**	There is an asymmetry of information between companies, their shareholders, principals and their agents on sustainability and corresponding stewardship issues. Sustainability considerations are not evidently integrated into investment processes. Trustees (and IGCs) and their advisers need to be better equipped to properly challenge their fund managers about sustainable investment activity. It is difficult to get meaningful information in relation to sustainability issues; better	Consumers that are getting investment returns that are being achieved without full consideration of stewardship and sustainability issues are unwittingly unaware of the impact of the assets they own. It follows that they are blind to issues that would possibly impact their decision-making and are therefore suffering detriment. Institutional investors, in particular, need to be aware of the total likely consequences of their asset holdings and the extent to which short-term returns are being achieved at

		disclosure by fund managers is needed for accountability and stewardship of clients' assets. The market's approach to stewardship in investment is fragmented and inconsistent at all levels in the chain. Asset owners need to be able to challenge asset managers on the key sustainability considerations that contribute to long term investment performance. They do not know what questions to ask to fully evaluate the asset managers' position on stewardship and sustainability issues. There are currently no concrete requirements/standards within the rating agencies assessment criteria that wold attend to ESG and Stewardship. The consumer's ESG interests and preferences are therefore not being adequately catered for	the expense of longer-term sustainability.
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
5	**Terms and Conditions**	Contractual terms and conditions are the interface between the supplier and the consumer. As such they are of immense importance; it is "the legals" that determines how the consumer is treated. There are significant levels of opacity around relevant contract terms and conditions, with Non- Disclosure Agreements, Secrecy clauses, Most Favoured Nation clauses and similar prohibiting an open and competitive market.	The consumer is unable to negotiate effectively and is therefore unlikely to be achieving optimal value. The consumer may be accepting "standard industry terms" on the basis that they cannot negotiate better; this may not be the case at all but it is easy to see how the consumer may think this is the case if all parties (suppliers and advisers) involved indicate that "these are standard industry terms" – "perception is reality".

		Evidence (anecdotal and otherwise) indicates this should be an area of great concern to the FCA but it is not yet within scope (or at least it does not yet appear to be). Very often standard terms provided by the investment industry are used and the wholesale adoption of terms favouring the stronger party skews competition from the outset. Such terms may be more onerous than they appear to be on first reading. It is vital that not only the FCA's policy/legal team members' area is aware of this but also their economist counterparts in the FCA's competition division are mindful of this too. The Terms of Reference makes appropriate reference to the importance of ongoing monitoring for value for money. Whilst this is of course very important it is absolutely critical that the contractual relationship is correct from the off; if it is not the consumer is always on their back foot trying to retrospectively renegotiate out of a weak position and unlikely to succeed in doing so. The Terms of Reference makes specific reference to the lack of ability/willingness of pension funds to challenge investment consultants (4.71/72). This is a very valid point and we wish to provide meaningful comment on this in due course. Similarly we wish to comment further on conflicts of interest and how incentives may be a distorting factor in the market.	The consumer is unwittingly accepting undue levels of risk and cost as very often the contractual arrangements are largely determined by the supplier, with high levels of complexity, high levels of cost to challenge and low levels of understanding all prohibiting what would otherwise be normal "shop around" market behaviour Furthermore, it is sometimes the case that the way the sales process or tender process is managed by intermediaries sometimes means the consumer does not properly scrutinise "the legals" until after the decision to use a particular supplier has, in effect, been made. Schemes that makes this mistake are likely to suffer detriment if/when problems arise subsequently. The consumer may be blind to any incentives that may have played a part in influencing the suggestions/decisions being made and therefore being unable to take all relevant factors into account.

	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
6	**International best practice**	It is prudent to be cognisant of overseas experience and practices, both to absorb what might be best practice and avoid repeating mistakes made elsewhere. A more "international" perspective is appropriate, given the international characteristics of the asset management industry, especially given the significant scope for international law impacting the UK market. It will also increase the chances of the UK being able to readily adopt innovation and technologies developed overseas	Ultimately, the cost of regulation is likely to be carried by the market and the consumer. It follows that better regulation may be achieved if we proactively seek to learn from others. Not doing so fails to mitigate the risk of regret and thereby exposes the consumer (and market participants) to unnecessary costs.
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
7	**Private Equity, Hedge Funds, Alternatives and similar should be in scope**	These sometimes opaque (both in terms of risks and in terms of costs), expensive and complex areas should be brought into scope; by leaving them out there is no level playing field and therefore the risk that such areas will increase market share for all the wrong reasons. They are a significant part of the market and should be included. Anecdotally, Hedge Funds / Private Equity and other so-called alternative investments mainly occupy 10% of Pension Fund Assets, but account for 50% of the fees. It is in these asset classes that competition is the most distorted and	If it could be shown that Private Equity, Hedge Funds, Alternatives and similar do not deliver value for money there is clear consumer detriment in excluding them from the market study. If the agents representing the consumer have not robustly sought transparency and value for money on such products/asset classes there will have been an erosion of the value for money being provided.

		investment consultants have the biggest negative impact on member outcomes. While some of these types of investments would not make the charge cap in DC (unless charges were hidden) they are ripe in DB where consultants rule. It has been reported that there are examples of Fiduciary Managers charging a 20% performance fee for 2% performance for a fund of hedge fund investment already charging 2/20 leaving no money left for shareholders and members over the economic cycle. The more competition that exists in traditional assets the greater the incentive to drive clients into these kind of investments where real performance is opaque, overcharged and virtually impossible for laymen to assess. It would be interesting to explore exactly why the buyers of these products have not already demanded more transparency and better competition. One of the key issues for competitive distortions is that there is no incentive for trustees/decision makers to actually deliver value for money to their members… Furthermore, the Market Study should look at how many of these products are promoted, and how. It would seem that this is often done using misleading performance assumptions which subsequently cannot be made public due to secrecy clauses. There is widespread use of misleading performance	

		benchmarks in particular within Fiduciary Management. Allegedly, there is at least one example of a leading consultant advertising outperformance based on misleading benchmarks	
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
8	**Remuneration Strategies**	Remuneration strategies (at all levels i.e. from those handling routine transactions all the way to the most senior of executives) significantly influence behaviour of individuals and therefore market behaviour. The market study needs to explore the correlation between remuneration strategies and market behaviour; not doing so would undermine the validity of the final conclusions of the study.	Remuneration strategies may obstruct the alignment of the interests of the supplier and the consumer and thereby have an adverse effect on value for money and fair market competition. Are those acting on behalf of the consumer being incentivised to act on behalf of the consumer?
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
9	**Transition management/ switching supplier costs**	The ability to move from one supplier to another easily and inexpensively is a major factor on the competitiveness (or otherwise) of the market. The transition management part of the industry should therefore be within scope especially as this is likely to be an area that could benefit from technology and other innovations. It might be that change-over processes are unnecessarily slow and cumbersome making it difficult (especially for institutional customers) to exit an unhappy relationship.	High levels of operational friction that arises if/when a supplier is changed reduces the fluidity of the market to the consumer's detriment. If the overall readiness level for the industry to handle a switch of supplier request is low then poor performance in this area is not penalised as it would be in a competitive market.

		Is there evidence of contractual terms unfairly prohibiting termination of contracts?	
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
10	**The basis on which Asset Managers do/don't get onto Investment Consultants' recommend lists for pension fund clients**	If, through a lack of transparency or understanding or any other reason some Asset Managers are unable to compete we cannot have an open and competitive market. The lack of transparency around the rationale for on/off selection list being made means there is no real scope for scrutiny. As such there is the risk of what amounts to a skewed market being formed/sustained. In particular, Trustees may only see a long/short list of fund managers recommended to them by the investment consultants. Some (smaller/boutique innovative) fund managers struggle to get on the investment consultants recommended lists and therefore are not offered to the clients.	If the market is unable to compete on a level playing field sub-optimal decisions will be made. The consumer will pay for this through a lack of effective choice and as a consequence will enjoy relatively poor value for money. Furthermore the consumer may miss out on opportunities and innovations because the market is stifled.
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
11	**Communication of risks**	Some investment consultants are advising trustees on asset allocation and fund manager selection. There is some evidence to suggest that actually very little time is spent in assessing risk and explaining to trustees the levels of risk within their	Asset allocation decisions that do not reflect the interests and the needs of consumers will lead to the risk of consumer detriment

		proposed investment strategies.	
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
12	**Investment consultants accountability- the nature of their advice**	The latest Review of Fiduciary Duties of Investment Intermediaries has identified gaps and anomalies in the accountability of investment consultants. There is a gap in the law which precludes consultants taking on the accountability for their advice as it is classed as 'generic' – therefore they cannot be held responsible for the outcomes of their recommendation to their clients, which contradicts so-claimed 'tailored and client specific' service and value added the consultants claim they deliver. The Law Commission Report has concluded that more evidence of the associated risks are necessary to introduce change in law.	Currently all legal liability for pension fund investment strategies (asset allocation choices, fund manager selection and so on) rests solely with pension fund trustees. Investment consultants influence significantly how these investment strategies are being formulated. However they cannot be held legally responsible for the outcomes of the strategies they recommend, nor is the rationale for their decision-making left open to scrutiny. It follows that there is scope for consumer detriment on the basis that the interests of the investment consultant and the consumer are inadequately aligned
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
13	**Regulation of Investment Consultants.**	Investment fund managers and investment consultants are not regulated by the FCA and the Pensions Regulator in the same way; consideration should be given as to how this impacts market behaviour	Is there a regulatory fault line here that leads to the consumer being inadequately protected?
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
14	**The Role of the Actuary within pension fund**	Actuaries play an important part within the investment chain as they establish the	How is this relationship played out in practice? – Are there information asymmetries and

	investment chain	nature of pension fund liabilities. However, they often belong to the same investment consultancy house and therefore are using the same pools of research expertise and resources.	conflicts of interest to the detriment of pension fund beneficiaries (i.e. consumers)
	Issue	**Why is it important?**	**Potential detriment to the consumer if not addressed**
15	**Internal vs Outsourced pension fund investment management**	With reference to consumers – particularly Pension Funds: Problems arise when pension funds delegate most of their investment decision-making and management to external investment experts. It is possible to show that pension funds with internal investment management tend to be more effective in delivering value. Is there a conversation to be had about internalising pension fund investment management to improve value, competition, stewardship? This may also bring into line the influence of investment consultants. What is the feasibility of internalising? What would be the implications?	If it were shown that outsourced investment consultancy leads to sub-optimal outcomes then there is demonstrable consumer detriment.

APPENDIX

The tables below have been included to evidence the expansive and inclusive nature of our membership.

They show which individuals are in which teams and those in bold red are Team Leaders.

DATA TEAM:

First name	Last name	Job title	Organisation

Andy	Agathangelou	Founding Chair	Transparency Task Force
Con	Keating	Principal	Brighton Rock Group
Chris	Connelly	Principal Consultant	Aquila Heywood
Christopher	Squirrel	Founder and CEO	Sciurus Analytics
David	Rich	CEO	Accurate Data Services
Gerry	Wright	Partner	Smith & Williamson Investment Management LLP
Henrik	Pedersen	Co-Founder	Clerus
James	Singer	Senior Associate	P-Solve
Markus	Krebsz	Interim Chief Risk Officer	UNECE GRM
Nils	Johnson	Director	Spence Johnson
Shaul	David	Fin Tech Sector Specialist	UKTI Financial Services Organisation
Stewart	Bevan	Product Manager - Benchmarking	KAS BANK
John	**Simmonds**	**Principal**	**CEM Benchmarking Inc**
Stephen	**Conley**	**Business Development Director**	**Workplace Pensions Direct**

TRANSACTION COSTS & CHARGES TEAM:

First name	Last name	Job title	Organisation
Andy	Agathangelou	Founding Chair	Transparency Task Force
Con	Keating	Principal	Brighton Rock Group
Henrik	Pedersen	Co-Founder	Clerus
Andrew	Evans	Chief Executive Officer	Smart Pension
Angie	Kirkwood	Senior Manager - Industry Deveopment	Scottish Widows
Anna	Tilba	Lecturer in Strategy & Corporate Governance	Newcastle University Business School

Ben	Ford	Sales Manager	Janus Capital International
Henry	Tapper	Founder	Pension PlayPen
Iain	Clacher	Associate Professor in Accounting & Finance	Leeds University Business School
Iain	Cowell	Head of Investment Solutions, UK & Ireland	Allianz Global Investors
James	Monk	Head of DC Investments	Aon Employee Benefits
Jamie	Jenkins	Head of Pensions Policy	Standard Life
Lucy	Forgie	Policy Adviser	ABI
Niall	Ferguson	Business Development Director, DC Investment Consulting	Barclays Corporate & Employer Solutions
Nick	Gannon	Policy Manager	B&CE, The People's Pension
Ronnie	Morgan	Strategic Insight Manager	Royal London
Stephen	Bowles	Head of Institutional Defined Contributions	Schroders
Stephen	Budge	Principal	Mercer
Tim	Sharp	Economic and Social Affairs Department	TUC
Chris	**Sier**	**Managing Director**	**KAS BANK**
Graham	**Cook**	**Portfolio Solutions**	**Macquarie Securities**
Jonathan	**Parker**	**Head of Defined Contribution**	**Dimensional Fund Advisors**
Neil	**Morgan**	**Senior Pension Trustee**	**Capita Asset Services**
Ralph	**Frank**	**CEO**	**Charlton Frank**
Shyam	**Moorjani**	**Director, Risk Advisory**	**Deloitte LLP**

RATIONALE FOR DECISION-MAKING TEAM:

First name	Last name	Job title	Organisation
Andy	Agathangelou	Founding Chair	Transparency Task Force

Con	Keating	Principal	Brighton Rock Group
Henry	Tapper	Founder	Pension PlayPen
Iain	Clacher	Associate Professor in Accounting & Finance	Leeds University Business School
Neil	Morgan	Senior Pension Trustee	Capita Asset Services
Markus	Krebsz	Interim Chief Risk Officer	UNECE GRM
Alan	Salamon	Managing Director	Corpias
James	Meenan	CEO	JNM Investment Governance
Jeremy	Williams	Director	Holbrook Pensions Limited
Mark	Miller	Vice President	Barclays Corporate & Employer Solutions
Rachel	Haworth	Policy Officer	ShareAction
Steve	Cave	Associate Director	Smith & Williamson
Tim	Middleton	Technical Consultant	Pensions Management Institute
Henrik	**Pedersen**	**Co-Founder**	**Clerus**

STEWARDSHIP TEAM:

First name	Last name	Job title	Organisation
Andy	Agathangelou	Founding Chair	Transparency Task Force
Con	Keating	Principal	Brighton Rock Group
Anna	Tilba	Lecturer in Strategy & Corporate Governance	Newcastle University Business School
Sarah	Hutchinson	Consultant	SJ Hutchinson Ltd
Luke	Hildyard	Policy Lead: Stewardship and Corporate Governance	Pensions and Lifetime Savings Association
Luke	Hyde-Smith	Fund Manager	Brompton Asset Management
Paul	Lee	Head of Corporate Governance	Aberdeen Asset Management

Paul	Marsland	Deputy Director	High Pay Centre
Rachel	Haworth	Policy Officer	ShareAction
Barry	**Mack**	**Head of Governance**	**Hymans Robertson**
Emma	**Craig**	**Marketing Specialist**	**KAS BANK N.V.**
Paul	**Hewitt**	**Business Development Manager**	**Manifest**
Sarah	**Wilson**	**Chief Executive**	**Manifest**
David	**Weeks**	**MNT**	**Lovells, AMNT**

TERMS AND CONDITIONS TEAM:

First name	Last name	Job title	Organisation
Andy	Agathangelou	Founding Chair	Transparency Task Force
Con	Keating	Principal	Brighton Rock Group
Alison	Berridge	Corporate Affairs Manager	B&CE, The People's Pension
Michael	Kemp	Senior Pensions Technician	Pinsent Masons LLP
Sebastian	Reger	Partner	Sackers
Janice	**Lambert**	**Pensions Consultant**	**Independent**
Judith	**Donnelly**	**Partner**	**Squire Patton Boggs**

INTERNATIONAL BEST PRACTICE TEAM:

First name	Last name	Job title	Organisation
Eric	Veldpaus	Strategy Director	Novarca Group
Eric	Plunkett	Principal	Redbrucke
Graham	Wrightson	Partner	Stephenson Harwood LLP
Nikki	Gwilliam-Beeharee	Food and Health Research Manager	Vigeo

Rosalie	Degabriele	Academic Finance Superannuation & Banking	University of Technology, Sidney
SV	Rangan	Senior Executive	AIG
Tomas	Wijffels	Policy Advisor	Federation of Dutch Pension Schemes

All enquiries to:

Andy Agathangelou, Founding Chair, the Transparency Task Force.

andy.agathangelou@transparencytaskforce.org

+44 (0) 7501 460308