



Improving Transparency in Workplace Pensions: Transaction Cost Disclosure

ICAEW welcomes the opportunity to comment on the *Improving Transparency in Workplace Pensions: Transaction Cost Disclosure* consultation, published by Department for Work and Pensions and Financial Conduct Authority on 2 March 2015, a copy of which is available from this [link](#).

This ICAEW response of April 2015 reflects consultation with the Business Law Committee which includes representatives from public practice and the business community. The Committee is responsible for ICAEW policy on business law issues and related submissions to legislators, regulators and other external bodies.

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MAJOR POINTS

Support for the initiative

1. We strongly support the broad direction of travel because there is a great need for increased transparency around transaction costs. In particular, it is vital that the Government and regulators introduce standardised disclosure of all costs and charges across all workplace schemes to ensure that trustees and IGCs have all the cost information they need, in a format that helps them to assess value for money for scheme members. However, we strongly believe that, before any requirements to report transaction costs are imposed on trustees and IGCs, standard disclosure arrangements should be put in place for investment managers to enable trustees and IGCs to obtain consistent and transparent information.

Introducing a reporting duty on investment managers

2. We note that the consultation paper acknowledges (at Chapter 5, paras 5 and 6) that, in order for any further duties to disclose transaction cost information to be effective, trustees and IGCs must be able to obtain a greater level of information on costs, and that new duties may be required on other parties in the chain (such as asset managers). In our view, these duties should be developed and implemented ahead of any trustee/IGC reporting requirements.
3. Introducing a disclosure obligation on investment managers would ensure that those charged with scheme governance (ie the trustees and IGCs) are provided with the information they need in order to discharge their duties (ie to review and disclose scheme transactions costs and value for money). Trustees and IGCs would be provided with information in a standard format that is comparable and reliable, which they would then be required to review in order to make exercise their judgement (rather than being required to collate or obtain such information from, for example, pooled investment vehicles that can be very opaque).
4. A disclosure obligation for investment managers would be a preferable approach because it would mean that the calculation and disclosure of costs is carried out by those closest to the 'coal face', who are already carrying out similar calculations (eg in relation to dilution levies) and who are best able to test those transactions. We believe this would therefore result in an overall lower cost burden, although we acknowledge this would have a cost impact on some larger schemes that have in-house investment management teams.
5. Further benefits would include assisting in levelling the playing field across different types of scheme, because the investment managers would report the same information to trustees, IGCs etc, and it is more likely to result in standardised, comparable disclosures than would be the case if trustees were required to disclose (as they are further removed from the underlying transactions).

Standardisation and staged approach

6. This reporting requirement for investment managers would require more harmonisation regarding both how terminology is used and how particular transactions are calculated. Therefore, there would need to be some initial work on standardisation in order for this approach to work, for example, to establish what costs are to be disclosed and how (eg net or gross).
7. Some good starting points could be the [IMA's SORP](#) for IMs which is aimed at providing consistent disclosure of information and/or the reporting templates in the [Novarca report](#), because the financial services industry have already begun to adopt these and they exclude some of the more complex costs mentioned in the current DWP/FCA consultation.

8. More complex transactions such as Market Impact and bid offer spreads could then be required in a subsequent tranche which could be rolled out once the industry has successfully adopted the requirements for the first tranche of more basic disclosures.

External verification

9. We consider that this reporting requirement should be supported by mandatory external verification to ensure consistency. This could be by way of the examples mentioned in the consultation paper (Chapter 5, para 26), ie a requirement for the disclosure of the methodology used (which we note could be in the investment managers' accounts or on their website) or a requirement to have the data and / or methodology reviewed by an audit firm under an assurance framework (which we note could be either by way of reasonable assurance (audit standard) or limited assurance). There are also other possibilities for external verification, for example, it could be by way of 'agreed-upon procedures' confirming that the methodology chosen had been applied, or it could build on the methodology already used by audit firms when issuing [Global Investment Performance Standards \(GIPS\)](#) verifications.
10. However, in our view, it would be premature to consider what form of assurance would be most appropriate or effective before the standardised disclosure framework that we advocate above for investment managers has been developed.