ICAEW
REPRESENTATION 38/19

INVESTMENT INNOVATION AND FUTURE CONSOLIDATION: A CONSULTATION ON THE CONSIDERATION OF ILLIQUID ASSETS AND THE DEVELOPMENT OF SCALE IN OCCUPATIONAL DEFINED CONTRIBUTION SCHEMES

Issued 28 March 2019

ICAEW welcomes the opportunity to comment on the Defined contribution pensions: investments and consolidation open consultation published by the Department for Work and Pensions on 5 February 2019, a copy of which is available from this link.

This ICAEW response of 28 March 2019 reflects consultation with the Pensions Sub-Committee of ICAEW's 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

1. We would like to make the following general comments, rather than answering all the detailed questions.
2. Regarding the proposal to require large schemes to report their policy and practice in relation to illiquid investments (see Chapter 3 and Q1 of the consultation), this appears to be excessive and disproportionate. There is already sufficient red tape in this area, including the Chairman’s Governance Statement and the SIP in a DC arrangement which deals with investment strategy/policy, and we see no reason why trustees should be subjected to further regulation in order to satisfy a government policy objective.
3. Regarding the actual investments covered by these proposals, ICAEW previously responded to the Patient Capital review, expressing our view that a funding gap existed at the development / next growth stage (rather than start-ups).
4. Regarding the proposal to require that smaller schemes should assess every 3 years whether they should consolidate into a larger scheme, whilst consolidation can lead to better governance and value for members, again we query whether this requires further regulation given this is happening naturally through vehicles such as master trusts.

Q1. We would welcome comments on the following proposals around reporting pension schemes’ approach to investing in illiquid assets. We would also welcome any other proposals which use reporting to prompt consideration of illiquid assets.

- ***a) Scope: ‘Relevant schemes’ (broadly, schemes offering money purchase benefits other than from AVCs alone) with 5,000 or 20,000 or more members (or alternatively £250m or £1bn assets to provide for money purchase benefits) would be in scope of the proposed requirement. Would an asset-based or a membership-based threshold be more proportionate and effective?***
- ***b) Reporting their policy: Schemes in scope would be required to explain their policy in relation to illiquid investments in their Statement of Investment Principles***
- ***c) Reporting their actions: Schemes in scope would be required to report annually on their main default arrangements’ approximate percentage holdings in illiquid assets, and with a breakdown in holdings of the trustees’ choosing.***

5. As we mention above, this proposal appears to be excessive and disproportionate. There is already sufficient red tape in this area, including the Chairman’s Governance Statement and the SIP in a DC arrangement which deals with investment strategy/policy, and we see no reason why trustees should be subjected to further regulation in order to satisfy a government policy objective. Regarding the actual investments covered by these proposals, ICAEW previously responded to the Patient Capital review, expressing our view that a funding gap existed at the development / next growth stage (rather than start-ups).

Q2. Do you think Government should encourage or nudge smaller occupational DC pension schemes to consolidate? If this should only happen at some point in the future what factors should be taken into account in determining that point?

6. As we mention above, regarding the proposal to require that smaller schemes should assess every 3 years whether they should consolidate into a larger scheme, whilst consolidation can lead to better governance and value for members, we query whether this requires further regulation given this is happening naturally through vehicles such as master trusts.

Q3. We would welcome views on the following proposals around pension schemes reporting their position on the potential benefits of future consolidation, or any other associated proposals.

- ***d)*** ***Scope: 'Relevant schemes' with fewer than 1,000 members (or alternatively less than £10m in assets to provide for money purchase benefits) would be in scope of the proposed requirement.***
- ***e)*** ***What should be reported: Schemes in scope could be required to explain their assessment of whether it would be in members' interests to be transferred into another scheme with significantly more scale. Should charges, investment, governance and administration all be compared? Is a reference scheme, or other guidance needed for comparison?***
- ***f)*** ***Reporting vehicle: The requirement could be added to the value for members assessment which forms part of the Chair's Statement and published annually.***
- ***g)*** ***Updating frequency: The explanation of whether it is in members' interests to consolidate should be updated at least every 3 years, and after any significant change in size or demographic profile.***

7. No further comments.

Q5[sic]. What do you think about the use of indicators such as trustee knowledge and understanding, open or closed status or member demographics to identify and encourage schemes to consider consolidation? What indicators do you recommend and how could they best be communicated and verified?

8. No comment.

Q6. To what extent are performance fees used or required for funds which offer illiquid investment such as venture capital, infrastructure, property, private debt and private equity? Are market practices changing?

9. No comment.

Q7. To what extent is the charge cap compliance mechanism a barrier to accessing funds which charge a performance fee? Does this act as a barrier to accessing certain asset classes?

10. No comment.

Q8. Do you agree that we should permit the additional method of charges assessment? Do you envisage any problems with complying with this method of assessment, or any reasons why it might disadvantage members?

11. No comment.

Q9. We propose that:

- ***h)*** ***We should publish guidance – which might carry statutory weight – on appropriate performance fee structures.***
- ***i)*** ***We should in particular specify in statutory guidance that performance fees should be calculated and accrued each time the value of the fund is calculated.***
- ***j)*** ***Performance-related fees should only be permitted alongside a funds under management charge, and not alongside contribution charges or flat fees.***

We would welcome respondents' views on all these points.

12. No comment.

Q10. Do you believe that the updated non-exhaustive list of costs and charges provides increased clarity about the scope of the charge cap? Are there any areas where further clarity might be required?

13. No comment.

Q10 [sic]. We would welcome views and any estimated costing for the impacts of these proposals.

- ***k) Stating a policy on illiquid holdings***
- ***l) Reporting on illiquid holdings.***
- ***m) Considering and reporting on whether it might be in members' interests to consolidate***
- ***n) The additional method of assessment with the charge cap.***

14. No comment.