

Institutional Disclosure Working Group

Terms of Reference

Background

The Financial Conduct Authority's (FCA) Asset Management Market Study identified that institutional investors find it difficult to get the necessary cost information to make effective decisions. To remedy this, the FCA has initiated the Institutional Disclosure Working Group (IDWG), a stakeholder working group with an independent Chair. The objective of the IDWG is to gain agreement on disclosure templates for asset management services provided to institutional investors.

Membership

- Dr Christopher Sier – Chair
- Jeff Houston – Co-Deputy Chair, Local Government Association
- Gregg McClymont – Co-Deputy Chair, Aberdeen Asset Management
- Secretariat – FCA

Members (alphabetical)

- Stewart Bevan (formerly KAS Bank)
- Richard Butcher (PTL)
- Dr Iain Clacher (Leeds University)
- Ralph Frank (Cardano, Transparency Taskforce)
- Teresa Fritz (Financial Services Consumer Panel)
- Joanne Getty (BlackRock)
- Tim Giles (Aon Hewitt)
- David Hutchins (Alliance Bernstein)
- Piers Lawson (Baillie Gifford)
- Thomas Mercier (Invensys Pension Scheme)
- James Mowat (Majedie Asset Management)
- Mark Rowe (Partners Group)
- Mark Sherwin (Investment Association)
- Sarah Smart (LGPS, TPR)
- Dr Ali Toutounchi (Independent)
- Graham Vidler (PLSA)

Ex-officio Member

- Financial Conduct Authority (FCA)

Observers

- Department for Work and Pensions (DWP)
- Organisation for Economic Co-operation and Development (OECD)
- Trades Union Congress (TUC)
- CFA Institute (CFA)

Engagement

The IDWG will publish on a public website these Terms of Reference, meeting agendas, meeting minutes and working papers once approved. The Chair will accept informal feedback and proactive comments from the wider pension and asset management community at any stage (the term 'community' includes the entire value chain). The IDWG will engage in outreach and seek feedback from the community.

Responsibilities

The IDWG will aim to gain agreement on templates for cost and fee¹ disclosure by asset managers² to institutional investors. The IDWG is expected to follow these guidelines:

- Cost and fee templates (or codes/data standards) are for professional investors' use and are not intended for delivering data directly to, for example, less sophisticated investors such as retail investors.
- Templates should be free from jargon, accessible and easy to understand.³ Any definitions used in the templates should be clear and consistently used over time and between managers.
- The purpose of data collection is to allow professionals to receive a standard set of information from any provider or potential provider in order to effectively manage and challenge costs, make better informed decisions on the composition and selection of vehicles and managers and compare charges between providers and against market norms.
- Templates should be comprehensive in terms of total costs, minimise the opportunity for significant costs to be included in 'other' categories. The underlying data should be prepared to consistent standards and therefore capable of comparison.
- Data building blocks which can be aggregated should be identified, as well as comparison undertaken between other templates that are already or are being developed, and so both a bottom up and top down methodology will be used.

Objectives and outcomes - The IDWG will consider the following key dimensions and questions:

1. Breath of coverage and depth of data

- Are templates within existing codes⁴ for managers sufficiently detailed for the asset classes they cover, or should they have additional data fields added?

¹ Costs under consideration will be those, both direct and indirect, that draw down directly on the value of the funds of the asset owners. Broadly this means 'direct' include invoiced and invoice-able costs, whilst indirect include implicit costs that are reflected in a reduced net performance figure. Costs that are borne by the P&L of a supplier are likely to be out of scope. For example, where an asset manager pays for research through brokerage commissions, this would typically be in-scope. However, where research costs are absorbed by the asset manager and not passed on, these will be out of scope.

² Including fiduciary managers.

³ The IDWG is not responsible for delivering investor education, for example, trustee education which is one of The Pensions Regulator's priorities.

⁴ Examples include the Local Government Pension Scheme (LGPS) Cost Transparency Code (<http://www.lgpsboard.org/index.php/structure-reform/cost-transparency>) and the Investment Association (IA) Code of Disclosure (<https://www.theinvestmentassociation.org/investment-industry-information/disclosure-code.html>). Both of these codes focus predominantly on managers of listed securities, with separate data collection templates for pooled vs. segregated funds.

- Should the templates for managers be further segmented into other asset types? Examples might include additional fields to better capture costs associated with fixed income funds/assets.
- What other asset classes or fund types will require separate data collection templates? Examples might include Private Equity, Infrastructure, Property, Hedge Funds, F/X, Listed & OTC Derivatives, alternatives such as overlays and bilateral derivative contracts used for hedging etc.
- Should separate templates be set for other suppliers in the value chain? Examples might include suppliers of custody, administration, legal and pension fund consulting services.
- How will the IDWG template provide information that is aligned with, and helps firms comply with, regulatory requirements including, but not limited to, MiFID II?
- How often should agreed templates be reviewed and updated to confirm their suitability for the current market, and to take into account new developments (for example, in relation to technological change or product/fund type) and market demands?

2. Confirming compliance with the data standards set by the IDWG

- Are compliance-testing mechanisms needed and, if so, what mechanisms should the IDWG recommend for tracking and assessing compliance?

3. Different types of institutional investors have different data requirements

- Which institutional investors should the IDWG consider and which should be prioritised when agreeing templates?
- How can the data needs of the different types of institutional investor be respected? Are different data-capture mechanisms and data standards needed?

4. Data consistency

- What data is actually needed by different types of institutional investor for the purposes of accurate financial reporting and decision-making?
- Can the mechanisms suggested in dimension 2, above, be used to provide this reporting and analysis?

5. Adoption of the template

- What can be done to encourage adoption of the template?

Indicative timeline and deliverables

The IDWG will focus initially on Breadth and Coverage of Data (Dimension 1, above) and agree on a standardised disclosure template for mainstream asset management products. In other words, the IDWG will aim to examine and then confirm, amend or expand the templates already in mainstream use (ie the LGPS/IA Disclosure Code). The IDWG will then progress to consider the other dimensions and questions above.

The IDWG will report to the FCA on the mainstream disclosure template by 24th December 2017, setting out the agreed disclosure template and the plan for future evolution of the template.

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The IDWG will report to the FCA on the alternative disclosure template(s) by 31 July 2018, setting out the agreed disclosure template(s) and the plan for future evolution of the template(s).

At each reporting stage, the IDWG will recommend ways in which to maximise the effectiveness of the disclosure template, either to encourage more providers to sign up to the template or to encourage more users to demand the template from their managers.

Once the IDWG has agreed on standard templates, it will make recommendations for how these templates will be reviewed annually to confirm their suitability for the current market, and to take into account new developments (for example in relation to technological change or product/fund type) and market demands.

Frequency of meetings

The IDWG will meet on a monthly basis to discuss work progress. The IDWG may establish sub-groups, reporting to the main IDWG, to investigate specific issues. Any sub-groups will define their own schedule of meetings such that they can meet the timeline set by the main IDWG.

Interaction with FCA

The FCA has set up this stakeholder working group to assist market participants to reach a consensus on the appropriate level of disclosure to give institutional investment clients the clarity and transparency they need to make effective decisions. The IDWG will report to the FCA when an agreement on a template has been reached, setting out what, if any, dissenting opinions have been registered.

The indicative timelines for reporting to the FCA are set out above.

Alongside this, the FCA will consider what support can be provided to the IDWG and will consider any proposals suggested by the working group to help ensure that take-up of the disclosure code from both the supply side and demand side is high.

The FCA will provide the secretariat function and be an *ex officio* member of the IDWG.

The FCA reserves the right to dissolve the IDWG at any time, and will do so once the objectives of the IDWG have been achieved. In these circumstances the FCA will consider how to take forward any outputs from the IDWG, as appropriate.

In addition, and depending on the ability/appetite of members to operate any sub-groups, the FCA may also provide some analytical capability to assist with the writing of the working papers produced by the sub-groups and the main IDWG.

Confidentiality

Members of the IDWG will undertake to keep confidential the work of the IDWG unless the IDWG has agreed on its public release. Meetings will be conducted under Chatham House rule, such that comments, dialogue and feedback within the IDWG meetings will not be attributable to individuals or the organisations they represent or with which they

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are associated. Chatham House rule will also apply in any situation where a formal conversation occurs relating to the work of the IDWG.

In the course of its work members of the IDWG may obtain information (whether or not in documentary form) relating to the FCA and its internal affairs, and information about third parties. Members will undertake not to disclose any information which is confidential in nature, or which is provided in confidence, without authorisation.

It is understood that IDWG Members may want to discuss IDWG material with third parties (such as work colleagues). Unnecessary involvement of third parties in handling IDWG material is strongly discouraged. In all cases where third parties see confidential IDWG material, individual members are expected to accept responsibility for ensuring that those third parties are aware of and respect the confidentiality and sensitivity that attaches to the work of the IDWG and the materials in question.

Competition law and other relevant law

Members of the IDWG are expected to comply with and to ensure they understand their responsibilities under all applicable competition laws, including UK and EU competition law. To the extent any IDWG member is unclear of these, they should consult the legal and/or compliance teams at their respective institution for further guidance. If, during an IDWG meeting, a member has concerns about the discussion from a competition law compliance perspective, the members should make their concerns known and the discussion giving rise to such concerns should cease.

Members of the IDWG are expected to comply with all other applicable laws.

Governance

The role of the IDWG is to provide insight and feedback to the FCA on the subject of costs and charges, as described above. Where individual members of the IDWG offer conflicting points of view and opinions, the Chair will endeavour to make recommendations that represent the consensus or a majority view of the IDWG, and may ask Members to vote on key issues. In such situations, the Chair will make the recommendation of the majority, but will capture all dissenting points within the meeting minutes.

Each member of the IDWG will have one vote. The FCA will have no vote but will attend meetings and participate in discussions. The observers will have no vote but will attend meetings and may be called upon in meetings to share their position at the Chair's discretion.

The IDWG's recommendations will not bind its Members.