

COSTS & CHARGES INDEPENDENT ADVISORY BOARD

11:30 4 JULY 2016

CAMOMILE COURT, 23 CAMOMILE STREET, LONDON, EC3A 7LL

BOARD ATTENDEES

Mark Fawcett	NEST (Chair)
Andy Agathangelou/ Chris Connelly	Transparency Task Force (dialling in)
Richard Butcher	PTL
Teresa Fritz	FSCP
Ben Gaukrodger*	ABI
David Hare	Phoenix Life IGC
Chris Hitchen	RPMI
Jeff Houston	Local Government Association
Thomas Mercier	PLSA DB Council
Alex Pocock	The Society of Pension Professionals
Graham Vidler	PLSA
David Will	The Society of Pension Professionals

INVESTMENT ASSOCIATION ATTENDEES

Jonathan Lipkin
Imran Razvi
Mark Sherwin

ALTERNATE TO

*Yvonne Braun ABI

PROCEEDINGS

1. Introduction

The Chairman welcomed the group, explaining that its existence would help the IA to deliver a robust, high-quality disclosure framework that is meaningful and helpful for investors. It was noted that the Group's role was advisory, providing the investment industry with a safe place in which it could interact with its key stakeholders. It was agreed by members that the Board's output should be a brief public report that comments on the IA's code and the process of its production.

It was also agreed that each Board meeting should begin with a few minutes of discussion amongst Board members on progress to date, without the IA being present.

2. Regulatory and policy background to enhanced transparency



At the Chairman's invitation the IA presented to the Board on the regulatory background underpinning the IA's work on enhanced transparency.

The IA provided an update on the membership and work-to-date of its technical groups on costs and charges and unit-linked disclosure. The Board queried the composition of the technical groups, in order to assess whether they comprised the right mix of expertise. The IA explained that the working groups comprised of technical people with knowledge of dealing desk operations and transaction cost reporting. Over the counter derivatives was a particularly challenging area where the IA would seek additional input from relevant experts in its member firms as appropriate. In response to a question on whether property as an asset class would be covered by the code, the IA confirmed that it would.

There followed a discussion between Board members and the IA in which the following points arose:

- The asset management industry sees the need for enhanced disclosure of costs and charges. The IA Board is fully supportive of the IA's work in this area and firms are keen for progress to be made. In addition the political and regulatory background means that enhanced disclosure will be delivered.
- Previous initiatives to improve disclosure (the Pension Fund Disclosure Code) had not been completely successful partly because the priorities of clients had been elsewhere. This was now changing.
- The IA wanted regulatory recognition of its new disclosure code. Notwithstanding this, firms had their own incentives to comply – either because regulators would otherwise legislate for highly granular disclosure, or because clients always had the option of making enhanced disclosure part of the procurement process for asset managers. The LGPS was cited as an example in this regard.
- It was not expected that the FCA's market study into the asset management sector would cover disclosure – the ToR had noted that it considered disclosure to be an issue being addressed by the domestic and European regulations that had previously been discussed by the IA.
- The methodology for disclosure of implicit transaction costs in the IA code could, depending on the views of the Board, result in two methodologies: (i) an implementation shortfall approach *required* by European regulation; and (ii) a measure based on trading volumes and estimated spreads, which appeared to have support amongst UK institutional clients.
- The Board would have the opportunity to provide feedback on the IA's code as it was being developed and would not simply be presented with a final proposal to comment on. The Board would not be required to commit to approving any particular output – it would be truly independent and its views would be its own.

Action: IA to consider what output from the technical working groups can be usefully shared with the Board in advance of the next Board meeting in September.

- The IA is happy to bring the Private Equity and Hedge Fund industries into the wider transparency conversation and ensure they buy into the IA's work – a point welcomed by the Board – but the IA cannot deliver disclosure for these industries given the IA's membership and mandate.

3. Discussion on the role of the Independent Advisory Board

The Board then discussed the draft Terms of Reference put together by the IA. The Board requested that the final ToR reflect the following points:



- The role of the Independent Advisory Board is to *advise* the IA on its code. The IA retains responsibility for delivering the code.
- The production of a formal Board report at the end of the process should be explicit in the ToR.
- The reference to 'transaction costs' in the first line of the ToR should be widened to 'investment costs' reflecting that the IA's work goes beyond disclosure of transaction costs, to cover all the costs and charges of the investment process.
- There was a desire that following the production of the IA draft code, the Independent Advisory Board should consider the possibility of becoming a more permanent oversight body to provide ongoing input and feedback on the subsequent use of and compliance with the code. The Board would discuss this with the IA and it should be included in the ToR.

Action: IA to circulate a revised ToR with the Board's changes incorporated.

4. Next steps

The IA will send to the Board a timeline of the work and proposed outputs between now and September, when the next Board meeting will take place.

Action: IA to circulate timeline of working groups' activity and outputs between now and September.

5. Any other business

One member of the Board asked whether there would be a metric to show how much of the Independent Advisory Board's advice is taken up by the IA in producing its code? The IA responded by suggesting that this would come via the Independent Advisory Board's report at the end of the process.

There was no further business and the meeting was closed.

Date of next meeting: 6th September.