THE
INVESTMENT
ASSOCIATION

COSTS & CHARGES INDEPENDENT ADVISORY BOARD

14:00 2 DECEMBER 2016

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

BOARD ATTENDEES

David Hare	Phoenix Life IGC (Chair for the meeting)
Lucy Forgie	ABI (alternate to Yvonne Braun)
Teresa Fritz	FSCP
Thomas Mercier	PLSA DB Council
Graham Vidler	PLSA (dialling in)
Alex Pocock	The Society of Pension Professionals (dialling in)
David Will	The Society of Pension Professionals
Andy Agathangelou	Transparency Task Force

INVESTMENT ASSOCIATION ATTENDEES

Jonathan Lipkin
Mark Sherwin
Eve Holloway

APOLOGIES

Mark Fawcett	NEST
Richard Butcher	PTL
Chris Hitchen	RPMI
Yvonne Braun	ABI
Jeff Houston	Local Government Association

PROCEEDINGS

1. Independent Advisory Board closed session

The Board held a closed session without IA attendance prior to the main meeting.

2. Minutes

Minutes of the last meeting were approved.

3. Matters arising

There were no matters arising.

4. Discussion of code

The IA gave an update on where the costs and charges progress was to date.

The IA noted that the FCA have constraints but are supportive of an industry initiative and would like to see progress in this area. The IA would like to have further discussion with the FCA policy team to ensure that all the points from the consultation are addressed.

Subject to the timing of this dialogue with the FCA, a realistic timeline for the release of this consultation is late January 2017. The IA will incorporate feedback from this session and circulate a revised disclosure framework to the Board for comment. Separately, the IA will continue its opposition to the FCA's proposed methodology on slippage (CP16/30).

If asked publicly about the reasons for delay on the consultation, the IA proposes to be very open about the sequencing. Similar constraints have applied to the IA as well as the FCA with respect to the wider European legislative timetable.

Members of the Board noted that many IGCs are asking for this data already; in fact the information for explicit costs is already available and some firms are including this in their annual report. What is not available are the implicit costs. The IA noted that unit trusts and OEICs already have spread information as well as all explicit costs, but clearly the goal of the Code was to embed disclosure across the long-term investment product and services set.

Members asked how supportive the FCA is of the work that <u>this group</u> will produce or of any (non-specific) work that the industry will produce on this topic? The IA replied that its view was that the FCA are acknowledging that there is an IA-led industry initiative and that they are expecting this piece of work. Another member of the Board reinforced this point, given that there is no other pan-industry initiative of this nature.

Line by line review

The Board discussed the Code point by point to identify whether it was indeed complete. One Board member asked a general question about whether the IA had asked its members if they would use the template across the market. The IA team confirmed that there was ongoing dialogue with the industry, which was keen to make progress, but that the Code was more than a template: it was a consistent set of line items and definitions that could be used in multiple formats. For some clients, it could be a template. For others, IT systems and/or data intermediaries would pick up the relevant line items.

Financing costs

The Board identified one area that had previously been raised but where the IA was still doing some work to ascertain whether it was an item for the core template or associated notes/disclosures. This concerned finance costs and commitment fees for loan facilities that may or may not be used. One Board member in particular felt that the issue needed to be explored, but that he was not necessarily certain how they should be represented in the template. The IA noted that the problem in many funds is that distribution is the largest finance cost because fund units are puttable and so classified as liabilities. Members need to be careful about what is classified as a cost.

The Board felt that everything should be shown and that there should be a clear understanding that not all the points will be relevant in all situations. Members felt it would be good to have one template which incorporated all costs, but are open to advice from the IA about the balance between what was covered in the Code, which had to be complete, and what was within the core template. The IA was keen to get the Board's view once the additional scoping had completed.

Members suggested speaking to industry experts for informal help on a confidential basis to see if there are any costs missing. The IA are happy for the Board to contact experts confidentially within their organisations and share findings with the Board.

The IA suggested that it had already sought to get involvement from transaction cost reporting companies and could host a technical panel for a Q&A with members.

The IA noted that the template provides granularity but the individual firms still have to ensure they meet with regulatory requirements. The Chair commented that the FCA consultation in CP16/30 does not include holding fees, property improvement costs or recurring costs (which will be included on the IA template).

Unit linked

Members asked where the cost of the box is if the P&L is rolled into the fund provider? The IA replied that the cost of the box is always separate from the fund: an authorised fund is able to provide a benefit to incoming and outgoing investors by matching units because they can deal at a more advantageous price than if they traded underlying investments directly. Pricing policy would be a core disclosure.

Implicit costs

The IA noted the FCA CP deals with slippage costs and does not include delay and opportunity costs. Cost should be the measure of friction in a transaction – the cost of converting cash into an investment. Delay cost relates to the timing of a transaction and opportunity cost represents the effect of not transacting – it is the opportunity forgone of a different course of action.

The Chair felt that opportunity costs should not be included on the template and other members agreed. One Board member asked if some asset managers have more opportunity to delay and so incur higher costs; if so knowledge of this could be useful. Members felt that this information is captured elsewhere through analysis rather than costs.

The IA explained that there are two areas that the FCA have confused in the CP; metrics looking at quality, and looking at quantity. Members felt the IA should clearly clarify what is captured by the template, namely the quantification of costs and not necessarily a representation of the quality of the trading process.

The Chair felt that if IGCs were uncomfortable with the template, they can exclude implicit costs and still use it. Explicit and implicit costs do not need to be mixed; in some situations including implicit costs may obscure other information. Slippage may end up being unhelpful noise in practice.

The FCA's approach to slippage costs may not be robust enough and it may be worth sharing examples with the FCA. The IA noted that in the EU it will be aggregated with other information and can be misleading because it is not granular.

Derivatives reporting

One member noted that the methodology for transaction costs for derivatives is inconsistent and, if substituting different instruments with derivatives, firms could manage to get lower costs. There was a brief discussion about whether this was a problem with the proposals in CP16/30 itself.

Audit

Members asked whether it was the IA's intention to quality control asset managers' information? The IA noted that it will create a template that will comply with FCA requirements and client expectations, but that data audit was a separate issue. FCA-regulated firms already have obligations in this area and specialist firms also exist to help clients on certain issues.

The IA will be clear on this issue in the consultation draft.

Report structure

The Chair thought that there may need to be some rewriting to make it accessible to investors. He felt that a detailed explanatory note with the templates/code as an appendix might help. The explanatory note should include an explanation of what the code does and does not cover, for example it does not include platform and advice fees. The report is focused not on the retail market but institutional investors and decision-makers. The focus may need to be expanded, and it was proposed that this will be discussed at the next meeting.

The Chair felt it would be useful to have a document which also set out clearly what was industry view, FCA requirements and EU regulation. At the moment, it was very unclear how some parts fitted into the overall document.

5. AOB

None.

Date of next meeting: TBC