

## COSTS & CHARGES INDEPENDENT ADVISORY BOARD

11:00 2 FEBRUARY 2017

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

### BOARD ATTENDEES

Mark Fawcett	NEST (Chair)
David Hare	Phoenix Life IGC
Arved Kolle	ABI (alternate to Yvonne Braun)
Teresa Fritz	FSCP (dialling in)
Thomas Mercier	PLSA DB Council
Graham Vidler	PLSA
David Will	The Society of Pension Professionals
Andy Agathangelou	Transparency Task Force

### INVESTMENT ASSOCIATION ATTENDEES

Jonathan Lipkin  
Mark Sherwin  
Imran Razvi

### APOLOGIES

Richard Butcher	PTL
Chris Hitchen	RPMI
Yvonne Braun	ABI
Jeff Houston	Local Government Association
Alex Pocock	The Society of Pension Professionals

### PROCEEDINGS

#### 1. Independent Advisory Board closed session

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

#### 2. IA update on discussions with FCA and next steps

The IA provided an update on its discussions with the FCA with respect to the Code in the light of the Market Study. The IA was given the green light to continue to take the work forward although no indication was given by the FCA that it would incorporate the Code into regulation. It was recognised by the IA that such a pre-commitment could not be expected. The job of the IA was to satisfy the FCA, and other stakeholders, through delivery of the Code that it provided a satisfactory disclosure framework in the context of existing regulation.

#### 3. Feedback from Board on Code

Each member of the Board present then provided comments on the code. Points raised were as follows:

- Having the questions for consultation at the start of the document would be helpful.



- The current material on the consultation (p8 of the current draft) should be expanded to highlight areas where there have been discussions between the IA and the Board as well as specific areas where the IA is seeking external views. The IA agreed to share the consultation questions with the Board before publication of the Code.
- Specific areas the Board recommended considering include: further breaking down of asset classes into more granular levels e.g. bonds into sovereign, corporate, high yield etc; derivatives should also come with similar categorical detail too.
- The approach taken to financing costs – providing them only where appropriate rather than as part of the standardised template – is fine, but the current discussion only covers where a facility is in place to raise cash as required. However, financing costs also arise through the use of repos in LDI strategies. While the number of funds in the UK using these arrangements might be small, the volume of these transactions is high. The consultation should include a discussion of this topic and the questions should accommodate the issue of whether the templates covered the right ground alongside additional disclosures.
- It is not clear where the costs of clearing derivatives are reflected in template. They should either be explicitly included in the template or included in the definitions of 'other transaction costs' as appropriate.
- It was queried whether PTR would be reported in a fund-of-fund structure. The IA explained that it was not intended to be, but that the cost of all underlying funds was pulled through such that all costs in a FoF structure would be visible. This was key and a requirement of the forthcoming FCA regulations set out in CP16/30. The rationale for not including a composite PTR was that while it would probably be possible to approximate one, it would be difficult to interpret the more funds there were in the structure. The Board noted that if the underlying costs were being pulled through then it made sense to contextualise them with the underlying trading activity. At a minimum, it should be noted and raised in the consultation.
- In the technical notes to the cost templates (Appendix V) the definition of turnover needs to be amended to take account of the fact that the taking the lower of purchases or sales mitigates the impact of flows rather than eliminating it entirely.
- It might be helpful to include a reference to the FCA's potential 'single charge' remedy discussed in the Market Study, which would be relevant to the Code. The IA agreed that it would put in the Code some wording noting that the Market Study outcomes might affect the future shape of the proposals in the Code.
- It would be helpful if the IA could be clearer on how it expects the Code to be used. The IA re-iterated that it wanted recognition of the Code in COBS but that only the FCA could require compliance. This would be made clearer in the document.
- On data verification it was suggested that the discussion could cover the options available to clients in this area. The IA said it would consider whether to include further material on regulatory expectations in respect of data integrity.
- The Code should be clearer earlier on over the fact that it is comprehensive in respect of asset management costs. Where the Code talks about what is not covered, this could be clearer too.
- When asking for responses to the consultation, should the Board be included as a recipient? The IA explained that it would be happy for the Board to review

responses and would include the Board's contact details for the consultation accordingly.



- A Board member asked if ex-ante research costs would be included in the template? It was not entirely clear what was meant by this and the Board member in question would follow up with an email.
- The Code states that the reporting period will be one year, with dates to be agreed with the client. Is there a risk of confusion here as pension schemes try and compare costs? The IA noted that it was simply trying to accommodate scheme reporting here and that the required reporting periods were a matter for clients to decide.
- It was not sufficiently clear that the templates would be the main reporting tool to IGCs and trustees. The Code would benefit from giving the templates more prominence than is currently the case.
- Part I of the Code contains some sections whose purpose is not always clear. For example, the section on categorisation of costs, or figure 1. It might also be better to clarify the text in relation to what the code is requiring, what it is merely recommending.
- There was some discussion over the structure of the document. Given its length it might be better to re-structure it in a way that the essential points can be understood by the reader without having to read the entire document.

#### **4. Plan for consultation and Next steps**

The IA outlined the timetable for the consultation and beyond. The aim was to go out to consultation by the end of February, if possible, but timing depended on successful completion of the draft. The consultation would probably last three months and the IA would publish a final feedback statement in late Summer. This would allow the Code to tie in with the final rules for CP16/30 and MiFID II requirements in respect of newly required disclosures on Best Execution and Research Payment Accounts (where used). The final proposal would include these elements too. The IA would then discuss again with the FCA the adoption of the Code into COBS.

In light of this the Board agreed that it should next meet in late April/early May (avoiding Easter in order to maximise attendance) in order to discuss its final report.

**Action: IA to arrange the next Board meeting**

#### **5. AOB**

Minutes of the 02/12/16 meeting still had to be approved.

**Action: IA to recirculate version of minutes with acting Chair's comments.**

**Date of next meeting:** TBC for late April/ early May.

