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Pensions Committee

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Becky Young
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Financial Conduct Authority
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Dear Ms Young

Asset Management Market Study – Interim Report

I am writing on behalf of the Pensions Committee of the 100 Group of Finance Directors with regard to the above-named consultation.

The 100 Group

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent around 90% of the market capitalisation of the UK FTSE 100 Index, and in 2015 paid, or generated, taxes equivalent to 14% of total UK Government receipts. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses, including pensions, taxation, financial reporting, corporate governance and capital market regulation. The 100 Group represents companies sponsoring defined benefit pension schemes with assets of approximately £500bn and membership of 3.6m.

Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

Response

As an organisation representing employers who sponsor some of the largest pension schemes in the country, we welcome the FCA's moves towards improving the competitiveness of the asset management market, increasing the transparency of charging information and improving the communication of investment information, both to pension scheme trustees and, in a defined contribution (DC) context, to pension scheme members.

The role of employers in pension scheme investment decisions

Employers have a key interest in the asset management market as it relates to pension schemes.

In trust-based schemes, whilst employers are not technically a party to the investment decisions taken by pension fund trustees, employer representatives are often involved in trustee investment decisions, either as employer-nominated trustees or as members of Investment Sub-Committees. Some organisations will also have joint risk management committees. In addition, trustees are legally required to consult sponsoring employers on their investment strategy.

In a contract-based arrangement, the selection and ongoing monitoring of the continued suitability of the pension vehicle will fall to the employer.

Investment decisions in defined benefit (DB) schemes

Given that it is the employer who has to fund the difference between DB pension scheme liabilities and pension scheme assets, it will be the sponsoring employer who ultimately has to pay for the effect of sub-optimal investment decisions or excessive charges. Therefore the FCA's current work is of great significance to employers sponsoring DB schemes, as well as to pension scheme trustees and members.

The Interim Report notes that, the larger the scheme, the more likely it is that trustees will have the investment expertise and resources to help them in making investment decisions, as well greater bargaining power and the ability to benefit from economies of scale. Whilst we agree with this analysis, we believe that further measures, in particular in terms of improving the transparency and comparability of charging information, may improve the situation even for the largest schemes.

Investment decisions in trust-based DC

Sponsoring employers also have an interest in the investment strategy, performance and charges of DC schemes. Employers are not directly responsible for the effects of investment underperformance or excessive charges (as they are in a DB context). However, such factors can materially undermine the value of both employee and employer contributions into a member's DC account, and therefore may mean that employees reach retirement with lower overall outcomes as a result of high charges eroding the account.

This can, in turn, potentially give rise to social or moral pressure on employers, interfere with corporate succession planning because individuals are unable to retire with fund values lower than expected or potentially even lead to the introduction of new legal requirements on employers to provide greater protection and coverage than at present.

Greater transparency means that trustees can provide clearer communication to members, especially on the effect of charges, in a DC context.

Investment decisions in contract-based DC

Increased transparency and comparability will also be helpful in the context of contract-based providers. Whilst a Group Personal Pension (GPP) involves a direct contractual relationship between the provider and the employee, the employer's name and reputation are still closely linked with perceptions of the effectiveness of the provider. Employers are therefore likely to be concerned both on employees' and their own behalf about the quality of communications to members, especially where there is a risk of compliance-driven information documents that may fail to be effective communications.

We hope that you find these comments useful. Please do not hesitate to contact me if you would like to discuss any of the points raised.

Yours sincerely,

Alan Stewart
Chairman
The 100 Group Pensions Committee