[24] September 2020 [submission deadline]

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Submitted By Email to: CP20-09@fca.org.uk

Dear CP20/09 Team,

CFA UK Response to CP 20/09: Driving Value for Money in Pensions

The CFA Society of the UK (CFA UK) is pleased to respond to the above consultation.

CFA UK is the professional body that serves nearly 12,000 leading members of the UK investment profession. Many of our members work with pension funds, either managing investment portfolios, advising on investments or as an in house employee responsible for pension investment oversight. More details on CFA UK and the CFA Institute are provided in Appendix I.

We are strongly supportive of the proposals set out in the consultation which are consistent with the ideas set out in our November 2018 paper 'Value for Money: A Framework for Assessment' and our response to your consultation (CP19/15) last July on the extension of remit of IGCs[1].

In particular, we agree with the aim of making assessment of value for money (VfM) more consistent across firms, but without without making it too prescriptive and hence at risk of becoming a 'box ticking' exercise. The more consistent framework should enable easier comparison of VfM and thereby enhance competition and help ensure better member outcomes.

Our 2018 paper also identified costs and charges; investment performance; and quality of service as the essential components of value for money. We stress that it is important to analyse all three aspects together, and not focus just on lowest cost. Investment performance should consider risk as well as return in relation to the customers' objectives and be measured over an appropriately long time horizon. Quality can include factors such as good governance and asset stewardship.

We would also endorse the objective of achieving consistency across sectors – trust based and contract based pensions, investment funds etc. - as far as is practical accepting that the bundling of services included in these different products unavoidably varies to an extent.

[1] CFA UK Response to FCA's consultation (CP19/15) on the Extension of Remit of IGCs (July 2019): *https://www.cfauk.org/-/media/files/pdf/professionalism/cfa-letter-to-fca-on-cp19_15-to-fca-15-july.pdf*

More details on our views are provided in answers to your specific questions which can be found in Appendix II.

Please do let us know if you would like you discuss our views in more detail.

Yours sincerely,

Will Goodhart,
Chief Executive
CFA Society of the UK

Andrew Burton
Professionalism Adviser
CFA Society of the UK

With thanks to contributions from the CFA UK Pensions Expert Panel and the CFA UK Professionalism Steering Committee

Appendix I: About CFA UK & the CFA Institute

CFA UK: serves nearly 12,000 leading members of the UK investment profession. Many of our members work with pension funds, either managing investment portfolios, advising on investments or as an in house employee responsible for pension investment oversight.

- The mission of CFA UK is to build a better investment profession and to do this through the promotion of the highest standards of ethics, education and professional excellence in order to serve society's best interests.

- Founded in 1955, CFA UK is one of the largest member societies of CFA Institute (see below) and provides continuing education, advocacy, information and career support on behalf of its members.

- Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute: is the global association for investment professionals that sets the standard for professional excellence and credentials.

- The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

- It awards the Chartered Financial Analyst® (CFA), and Certificate in Investment Performance Measurement® (CIPM) designations worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

- CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.

- For more information, visit www.cfainstitute.org or follow us on Twitter at @CFAInstitute and on Facebook.com/CFAInstitute.

Appendix II: Responses to Questions

***Q1:* Do you agree with our 3 proposed elements for assessing value for money? If not, what alternative factors do you suggest?**

- Yes, the proposed three elements – costs and charges, investment performance, and quality of service – are very much in line with the approach CFA UK proposed in our November 2018 position paper on value for money. As we set out in our paper, we think these are the core elements of value for money. It is important that all three factors are considered, not just lowest cost.
- While we agree that these elements are the correct ones, there could be benefit in having a more comprehensive, albeit non-prescriptive, framework for how to interpret these elements. For example:

  - Costs – is the member charge commensurate with the cost of the services provided to members, including investment management.
  - Investment performance – the track record of a scheme's absolute returns against a self-selected peer group may say less about the quality of its investment approach than the consistency of its risk adjusted returns to its stated investment objective.
  - Quality of service - the reliability of a scheme's basic services is potentially more relevant to a scheme's quality of service, than the breadth of different services – or 'bells and whistles' - that the scheme provides.

***Q2:* Do you agree with our proposed Handbook guidance about the meaning of value for money? If not, what alternative wording would you suggest?**

- CFA UK agrees with the proposed wording, with its focus both on suitability of the services for the customer and benchmarking of the costs, investment performance, and quality of service versus other options available in the market. We would stress the need for that benchmarking to be across all three factors and not focus overly on cost at the expense of the others, for example due to the relative ease of comparison.
- We note, however, that the proposed wording does not instruct ICGs in how to interpret the results of any such comparison; we believe this is the appropriate approach as such an instruction could be overly prescriptive and unhelpful.

***Q3:* Do you agree with our proposed process for VfM assessment? If not, what alternative process would you suggest?**

- CFA UK agrees with the process in terms of the suggestion to select a sub-set of relevant comparators from the marketplace and also to set out why that subset was thought to be the relevant one.
- The process by which an IGC identified appropriate peers and benchmarks is an important aspect of the VfM assessment. Peer groupings based on age of scheme, geographic region or even size may indicate that ICGs are benchmarking somewhat arbitrarily in the context of a VfM appraisal. On the other hand peer group analysis of schemes with similar member demographics/client types, employer/plan sponsor groups are likely to be more relevant.

***Q4:* Do you agree with our proposals for IGCs to consider whether any of the comparable schemes assessed offer lower administration charges and transaction costs? If not, how should IGCs review costs and charges?**

- CFA UK agrees that it is appropriate to require the IGC to consider whether comparable schemes offer lower charges and transaction costs. However, it is important not to equate this to simply the absolute level of cost, but - as per your suggested three elements – to consider cost in relation to investment performance relative to objectives and quality of service. Hence, a "comparable scheme" is one with equivalent performance and quality of service. To illustrate further:
    - A scheme which incurs higher transaction costs but achieves higher performance will offer good value for money; a scheme which incurs higher transaction costs for average performance has potentially been over-trading and offers poor value for money;
    - A scheme with high administration charges that offers investors timely and complete reporting, slick execution, clear communication and easy access to well-trained staff when needed may well offer better value for money than an equivalent scheme with low administrative charges that communicates poorly with its investors and automated services with limited staff access.

***Q5:* Do you agree with our proposed guidance that fully complying with the charge cap does not necessarily indicate value for money?**

- Yes, this is consistent with the assessment framework you have set out. VfM is not all about costs.

***Q6:* Do you agree that a reasonable comparison of costs and charges with other options available on the market will put pressure on high-charging providers to reduce their changes and transaction costs? If not, how else could this outcome be achieved?**

- Competition will be the main driver on providers to lower costs and charges. The existing requirements on transparency of costs and charges are helpful to competition by making products easier to compare but need time to bed down and achieve universal application and full understanding. The proposed comparison in the IGC report should also be helpful to buyers in choosing amongst competing providers and achieving their desired balanced between cost, expected investment performance and quality of service.
- The VfM guidance for IGCs should seek to build and reinforce the 'pillar of the informed customer' by providing transparency and comparability.

***Q7:* Do you think that further guidance will improve the assessment of legacy products?**

No opinion.

***Q8:* Do you think that our proposed rules and guidance will improve the clarity of IGC annual reports?**

- We think the proposed framework will help to improve the clarity of IGC annual reports and the consistent framework should help readers to make comparisons across providers, should they wish to do so. It should also help to clarify that lowest cost might not be an appropriate objective without consideration of the investment performance and quality of service received for that cost.

***Q9:* Do you think that firms providing pension products should have a specific responsibility on ensuring the VfM to customers of these products?**

- No. It is not clear that such a provision would add much to the existing requirements whereby a provider is required to treat its customers fairly and whereby the IGC is in place to protect the interests of the pension saver and hold the provider to account for its funds' performance against their stated objectives.

***Q10:* Do you agree with the analysis set out in our cost benefit analysis?**

- No opinion.