

14 September 2026

The Value for Money Teams.

FCA, DWP and TPR

c/o Department for Work and Pensions

Submitted by e-mail to: caxtonhouse.vfmconsultation2026@dw.gov.uk

Dear FCA, DWP and TPR teams,

CFA UK letter in response to DWP, FCA and TPR's CP 26/25 - The Value for Money Framework: Draft regulations and draft FCA rules

We are pleased to respond to this final leg in the consultation process on Value for Money (VfM), and take the opportunity to recap below our engagement with this topic. Hopefully, our comments across the consultation cycle have been useful.

- [cfa-uk-letter-in-response-to-fcas-cp-261-value-for-money--6th-march-2026.pdf](#)
- [cfa-uks-letter-in-response-to-fcas-consultation-on-vfm-framework-for-default-dc-pensions-cp24.pdf](#)
- [response---march-2023---vfm.pdf](#)
- CFA UK response to FS22/2 of September 2021
- [CFA UK 2018 report "VfM – A framework for assessment": position-paper---november-2018---value-for-money.pdf \(cfauk.org\) : Thought leadership piece of 2018](#)

Answers to the questions are at Appendix 1, which draw extensively on our recent response to CP26/1 (first link above). As previously, we have limited our responses to questions related to investment performance and risk, as there will be other responders better qualified to cover client servicing and technical aspects.

RECOGNISING THE POSITIVE CHANGES IN CP 26/25

We commend the improvements since CP26/1, including the following:

The framework has been simplified to a large extent, which aligns with the view we expressed in our previous response:

"... we are concerned that the emerging framework of disclosure and assessment, given the scheme wise, cohort wise, service wise application over multiple years and metrics is extremely complex and goes against the direction of travel of making regulation simpler and more effective."

The **use of Geometric Averaging** for past performance reporting has been restored. In our previous response we said:

“Arithmetic averaging has significant drawbacks of distorting actual returns over a time period, and masking the impact of large drawdowns that require greater positive returns to overcome. Arithmetic averaging will also not capture the cumulative reduction in yield effect of charging structures more complicated than a simple flat AMC.”

The requirement for external review of FLMs has been removed. We previously highlighted the potential for paid third-party reviews to replicate “issuer-pays” incentives seen in other scoring regimes. We favour transparency of assumptions and accountability for outcomes over additional layers of certification.

A more reasonable phasing and timeline has been introduced, including giving sufficient time for embedding before consequences could arise.

REMAINING CONCERNS AND RECOMMENDATIONS

- **Comparator-based assessment may still encourage herding**

Peer-relative assessment remains capable of affecting portfolio decisions, as being close to peers is easier to defend and differentiated strategies carry greater reputational and regulatory risk if they temporarily underperform. The framework therefore needs to consider and encourage a means of distinguishing between persistent poor performance and intentional, well-governed strategic differentiation.

- **We remain unconvinced of a material role for FLMs**

While FLMs have benefits in indicating proposed strategy, they embed assumption-driven model risk and the possibility of gaming or window dressing. We appreciate that you have received supportive feedback from others and embedded guardrails, but feel there should be explicit expectation that FLMs are only used in moderation.

- **Subjectivity of assessment**

We previously recommended that regulators provide guidance for performance assessment vs the comparator, for example what degree of under-performance is expected to be not delivering value. While we agree a rationalisation step is necessary to sense check outcomes, it introduces discretion and therefore consistent criteria, documentation requirements, and supervisory scrutiny are important to ensure comparability and prevent extensive post-hoc justifications.

- **Delayed and incomplete information release**

Information should be available to members when it is available, and mitigating actions put in place to prevent ad hoc reaction rather than delaying release. We also disagree with the proposal to limit performance net of investment charges disclosure to 1 year.

- **Market concentration and consolidation effects**

We recognise the benefits that greater scale can deliver through lower unit costs, governance capabilities and wider investment opportunities. However, the Framework is being implemented alongside explicit consolidation measures, and VFM-driven

transfers may reinforce this trend. We therefore recommend monitoring whether VFM-induced transfers become concentrated among a small number of receiving arrangements and the consequences. To assess whether scale continues to improve member outcomes without materially reducing investment diversity and choice or operational resilience. It may also be useful to look beyond scheme concentration to concentration in underlying asset managers and service providers.

- **Other proposals**

As contained in our responses, we do not agree with some of the proposals, as we can't see sufficient merit in terms of compliance ease versus the impact on the disclosure and assessment process. These include removal of the 5YTR, introducing a new volatility measure relative to long term gilts, and the format of the asset allocation disclosure - not being insightful enough for investors.

We hope our comments are useful and would be grateful for the opportunity to meet and discuss our feedback.

Yours sincerely,

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APPENDIX 1

RESPONSES TO QUESTIONS

Chapter 2: Scope and Thresholds

Question 1: Do you have any comments on our proposals for phasing?

We are **supportive of the proposed phasing** such as starting in 2018 for larger schemes with consequences staggered to 2029 and scheduling smaller schemes from 2029. In our previous response we recognised that *“The framework’s fixed compliance costs and remedial transfer expectations may impact smaller schemes disproportionately and reduce competition and innovation.”*

While the consultation process has taken many years, it is better for a significant regulatory initiative to be implemented properly rather than in haste.

Question 2: Do you have any comments on our proposal to limit the first data collection period to 6-months?

While the proposal is well intentioned to support firms, we feel that it **risks creating confusion by introducing a broken 6 month period into play**, that may not align with many firms reporting and data collection cycles.

We understand that the VfM framework is to operate on a calendar year cycle and therefore will the first 2028 full assessments only be for the six months of July-Dec 2027? **This needs to be explicitly spelt out**, or consideration given to moving to a data collection start date of either 1st January 2027 (your previous proposal) or 1st January 2028.

Even in the longer term, the first year and first assessments not being properly comparable to subsequent years will not help.

Later on in this response we have recommend a first year review, and an alternative is to treat the broken six month period as a testing and feedback opportunity rather than formalised into the data set and assessment process.

Question 3: Do you have any concerns about our proposed exemptions and inclusions?

Question 4: Do you agree with the proposed exemptions (full and partial) for contract-based arrangements where there is a transfer or a plan to transfer? Why or why not?

We are supportive of the exemptions as they are well reasoned and proportionate and do not reflect much change from the previous proposals.

Question 5: Do you have any further comments on our proposed scope?

In our previous response we made a recommendation to “**to include a Decumulation or Post Retirement cohort in scope** at the earliest, which is even more important with the advent of guided retirement propositions and the proposal to require a default solution.”

We accordingly welcome your statement in this consultation that “over time, we intend to broaden the scope of the VFM Framework to extend its benefits to members... including those in decumulation”.

Chapter 3: Investment performance – Backward-looking metrics (BLMs)

Question 6: Do you agree with the proposed updated methodology? Do you envisage any issues with calculating investment performance metrics on a basis that tracks members experience over time, while excluding contributions? Please specify where problems might arise, if any.

We agree with the approach, as in practice most schemes will not have a granularity of cumulation stage offer that discerns each YTR cohort, rather they **will use a set of funds that aggregate several YTR cohorts**. As long as the right TDF is identified and mapped to the cohort requiring disclosure of member experience over time is a practical approach. Firms should be required to maintain a documented rationale and governance process to back up this mapping.

With regard to exclusion of contributions, this is **aligned with the Time Weighted approach** to returns (as opposed to money weighted), and considered the appropriate way to assess performance by eliminating the impact of investor driven cash flows.

Question 7: Do you agree with the removal of standalone BLM disclosures at 5YTR? Are there any issues associated with its removal?

We do not support the removal of the 5YTR. If pensions firms have the data, track members over their journey, and put in place processes for 30YTR and 0YTR, there is unlikely to be a material resource or effort benefit of dropping the 5YTR.

In contrast to that, **the loss of the 5YTR could create a notable gap in the VfM discipline**. The 30YTR will generally capture younger savers and the AuM covered at this stage, particularly through a 10 year and 5 year look back is unlikely to be a significant portion of DC pensions AuM nor a driver of the long term returns - as end of cumulation stage returns are more significantly impacted by later year returns due to compounding and asset accumulation.

The 0YTR will capture a large proportion of assets, but is skewed to a very precise point in time and the look back periods essentially cover the de-risking phase or glide path.

As a result, the performance of the **core accumulation phase of a pension investor is better reflected in the 5YTR**, looking back at 5 and 10 years. It is also relevant that most DC schemes start their de-risking around 7-8 years pre-retirement and the period around 20-15 years pre-retirement is the biggest contributor to the end value of a member's pot.

We also note that investors should be able to exercise choice throughout their pension journey and may have to do this by independently assessing returns data that does not fall into any cohort – reducing the number of cohorts will make this an even more difficult exercise for investors.

Question 8: Are you comfortable with ASD as a risk metric for all arrangements, or should some arrangements calculate their volatility metrics differently. Please specify under what circumstances and what modified calculations you would recommend.

We have previously supported ASD for simplicity and investor understanding and retain that view in this context.

We had noted that most fund administrators and investment teams will track monthly returns rather than daily, and welcome the change in the aspect to monthly data.

We also recap our previous recommendations on this issue:

- **Trustees should be mindful of the volatility computation over longer periods** as a 1-year ASD can indicate a view that may be different over longer periods as volatility is dampened. CFA Institute's globally recognised GIPS standards require the disclosure of a rolling three-year ex post standard deviation.
- The FCA should **consider the addition of a risk adjusted metric**, such as the Sharpe ratio in the reporting template, which will have benefits in understanding of performance and risk vs potential interpretation issues.
- A distinction should be drawn between metrics disclosure and VfM assessment. While additional risk metrics are not disclosed, **IGC's and Trustees should be expected to review wider risk measures** such as 95% confidence VaR, cVaR, downside deviation etc. to avoid superficial conclusions.

We **disagree with the abandonment of the disclosure of the dispersion** of gross performance – even if an annualised figure is used, dispersion data can be useful in identifying the range of member outcomes.

With regard to the use of a modified ASD for the de-risking phase, **we prefer a simpler solution of just displaying e.g. 15 year gilt ASD alongside** rather than adding the complexity of a new measure of relative deviation vs gilts to the disclosure.

Question 9: Are there any circumstances in which a scheme would not have access to the historical cost information required to apply the same chain-linking

methodology to costs as done to gross performance figures, noting the more limited scope under which chain-linking is applicable?

Less qualified to respond to this question.

Question 10: Would there be a material reduction in burden if net performance were to be calculated first, and then chain-linking applied to it, rather than chain-linking costs in order to derive accurate net performance metrics?

The mathematically better way to calculate compound returns is to calculate the net returns for each year and then compound them before deriving an annualised return. Calculating a compound gross return and deducting a compound cost figure can give a slightly different outcome.

We accordingly **support the option of using net returns for calculating cumulative and annualised returns** and for chain linking.

While the drawback with this is lack of transparency of the total cumulative cost incurred, it is in line with the FCA/DWP philosophy to reduce excessive focus on cost and increase the focus on net returns. Costs should be treated as an input to value rather than an outcome in themselves: a higher-cost strategy may still provide superior value where the additional cost is more than compensated by improved net performance, risk characteristics or member-relevant services.

Once the FCA has considered its final position on this, we **recommend a simple worked example is provided** for the avoidance of doubt.

Question 11: Would trustees or firms have the necessary data to retrospectively determine if an arrangement would have been classed as quasi-default up to 10 years prior, so as to apply chain-linking where necessary?

Less qualified to respond to this question.

Chapter 4: Investment performance – Forward-looking metrics (FLMs)

Question 12: Do you agree with the proposed requirements for FLM disclosures and safeguards? Why or why not?

We reiterate our view that while FLMs have some benefits, such as signalling proposed strategies and indicating future expectations, we **disagree with reliance on FLMs for the discipline of performance assessment and comparison**. We remain concerned with the risks of gaming and misuse of FLMs to mask poor past performance.

- Removal of the external advice requirement and the requirement to disclose key assumptions

In our previous response we questioned the need to make external advice a mandatory requirement and flagged concerns such as conflicts of interest (e.g. issuer pays), and hence agree with the removal proposal. However, this is subject to other adequate guardrails being in place for example, e.g. we recommended the requirement for calculation of FLMs **based on the arrangement's strategic asset allocation (SAA) and related assumptions approved by the Trustees/IGC's**. This prioritises transparency of assumptions and accountability for outcomes over additional layers of certification.

- Removal of FLM disclosures for the 5 YTR cohort

As per our response to question 7, we disagree with removal of the 5YTR cohort, however we **agree that with the removal of FLMs for this cohort and the 0YTR cohort** as there is little material relevance of FLMs for these cohorts given the short time to or no time to retirement / end of cumulation.

We also reiterate our previous recommendations in this context:

- **Ranges, not point estimates:** FLMs should be presented as probability bands (e.g., percentile ranges) rather than a single point estimate, to reduce false precision and improve comparability across arrangements. Apparently precise long-term forecasts can provide false confidence.
- **Ex post review:** Arrangements should disclose, on a rolling basis, how prior FLM projections compared with realised outcomes (with explanation of systematic optimism bias). This would materially reduce incentives for assumption “window-dressing” and improve the supervisory usefulness of FLMs over time.
- **Adding or clarifying the following:**
 - Expecting consistency with Statutory Money Purchase Illustrations or explain material differences, acknowledging these will not be identical to the SAA
 - Where non SAA assumptions are used, for example niche asset classes, these should be explained
 - The FCA should clarify if SAA assumptions should be the last ones used by the firm for its strategy, or the latest available at the time of the VfM even if not implemented

Chapter 5: Asset Allocation Disclosure

Question 13: Do you agree with our revised proposals in relation to Asset Allocation? Please provide details of any concerns you have relating to our proposals.

The revised proposals are supported, for example the use of the ‘unknown’ field only in exceptional circumstances, the look through basis, and synthetic allocation being placed in “others” if not easily classifiable.

We previously **called for alignment with the performance reporting dates** and therefore support the clarification that disclosures should be based on the portfolio mix as at the end of the calendar year at 31 December.

Similarly, we had also asked that **cash should align with the SAA**, for example not include other cash in bank outside the SAA, and welcome the clarification.

We however **recap below some of our previous recommendations**, which have not been considered and remain relevant to the finalisation of this section:

- Asset allocation disclosure **must also include some historic data e.g. 1 year**, to enable investor understanding of performance and risk trends vis a vis asset allocation changes.
- The illustrative asset allocation **table should include sub totals** for the major asset classes e.g. a sub total for equities and bonds, for ease of investor understanding.
- Asset allocation tables are more useful to less sophisticated readers if **simple ratios are calculated and disclosed**. For example, instead of (or in addition to) showing a granular % hedged figure for each asset class, a portfolio level total of % hedged (plus UK exposure with no currency risk) would be more useful to indicate the degree of currency risk.

Question 14: Do you have any comments on the definitions used above? In particular, do you have any comments on the definition of ‘UK-based entity’? Is there an alternative definition you would suggest?

Question 15: Do you agree with our proposed definitions? In particular, do you agree with our definitions of UK assets? Are there any areas where definitions need to be tightened to ensure consistency of measurement?

We are broadly supportive of the several proposals under this category, but have a few selective comments as follows:

- We **do not support a 4 subcategory breakdown of Private Equity** as we question its value to the intended readers. Note also that different firms categorise PE strategies in different ways – VC and growth definitions bleed into other, so do growth and buyout, where minority stakes are not a prerequisite for applying the label ‘growth’.
- The definition of property implies that this includes both listed and bricks and mortar property – please therefore **add property to the clarification on listed holdings via a passive fund**, such as provided for infrastructure.

We previously advised against breaking out ‘Quoted but not listed’ (e.g. AIM) in the interests of simplicity and based on common practice, and **agree with the proposal to classify AIM stocks as unlisted**.

With regard to UK based definition, we previously suggested that rather than reinventing this definition, the framework should reference existing methodologies used by prominent Index Providers. This will also assure a degree of alignment with UK index benchmarks and with Funds/ETFs that are labelled and aim to outperform or track UK

Indices. In this connection we would point out that for most index providers the **country of incorporation is also considered a key factor, not only the primary listing**, and therefore the proposed definition may not align with index practice.

Chapter 6: Costs and Charges

In relation to this chapter, we remain supportive of the proposals, with the exceptions or specific comments below:

- a) We **do not agree that guaranteed returns should be ignored** when reporting past performance, because they may influence returns and they usually have a cost which will be reflected in the cost figures.
- b) We **recommend requiring a one-time disclosure of switch costs** between schemes as chain linking the % figures of two schemes can ignore the cost of the move, which has an impact on investor outcomes.

We previously supported min / max / median disclosure and feel this should be applied consistently across schemes.

With regard to the options for complex charges, we previously **suggested removing the requirement for a member-by-member approach, and accordingly prefer Option B** as it reduces complexity without materially detracting from member useful information.

Chapter 7: Quality of Services

Less qualified to respond to this section.

Chapter 8: Assessment Process

Question 24: Do you agree with the proposed approach to consider decumulation aims separately for the 0 YTR cohort? Why or why not?

Question 25: Would decumulation aims be more appropriately considered in step 3 rationalisation?

Question 26: Do you agree with the decumulation aim sub-categories? Why or why not? Are they sufficiently clear, or do they need to be defined?

We support the proposal, although **we view this as providing a niche benefit** as the majority of pre-retirement solutions should arrive at YTR0 with sufficient member flexibility on the route ahead, be it annuity purchase, staying invested for further growth or opting for the (new) default decumulation solutions. This is more common than having different pre-retirement glide paths depending on the post-retirement objective of the member.

Question 27: The proposed shift in approach for the first year of the Framework moves away from a more granular assessment of value that we have consulted on

previously. We welcome feedback on where stakeholders consider there to be concerns in relation to the data sets, the proposals set out in CP26/1 for the publication and use of multi-employer cohorts, and the proposed changes.

We support the proportionate approach to year 1 assessments, to allow time for process embedding and to iron out any kinks in the process or data.

We recommend that regulators use the year 1 assessments as a review opportunity, and implement a short feedback and learnings questionnaire related to year 1 to address any drawbacks. The review should explicitly be without any consequences for schemes that may have misunderstood the framework or misapplied it in some cases. This approach is likely to be more insightful than addressing all data related concerns upfront.

We also recommend using the first assessment cycle to establish baseline indicators against which the behavioural effects of the Framework can subsequently be evaluated. These could include provider concentration, the destination of remedial transfers, dispersion of strategic asset allocations and FLM assumptions, and, where practicable, concentration among key underlying asset managers and service providers. This would allow subsequent reviews to distinguish improvements in value from unintended increases in herding or market concentration.

Question 28: Does the second factor for consideration proposed for weighting BLMs and FLMs risk excessive use of FLMs? If so, should we restrict this factor more explicitly? For example, to significant investments in assets affected by ‘J-curves’?

We reiterate that a material role for FLMs in a value assessment process goes against the core discipline of evidenced investment performance assessment and comparison.

As your proposal is to proceed with the introduction of FLMs, we previously advocated against Option 2, as we felt that specifying a numerical percentage and creation of an additional composite metric adds to the high degree of complexity of the overall process, with the composite number on its own (outside of the VfM process) being a relatively meaningless metric.

Accordingly, we **support Option 1 but with the caveat that the window for a “near equal” is completely removed**, as it may encourage excessive weighting to FLMs by implying regulatory acceptance or even encouragement. In our view FLMs should be assigned a very low weight and anything more than say 20-25% should be considered unusual.

Separately on FLMs we questioned the requirement for external advice, and instead recommended strengthening guardrails of SAA alignment and assumptions disclosure, and hence welcome the new proposals.

Also as mentioned in response to Q. 12, **we disagree with the benefit of allowing the use of FLMs for YTR0 (and YTR5 if it is retained as we have advocated).**

Question 29: Do you agree with the simplified approach proposed for multi employer arrangements for year 1? Why or why not?

Question 30: Do you agree with the simplified approach proposed for single employer arrangements for year 1? Why or why not?

Question 31: Would the simplified approach be appropriate if it was applied from year 2/on an ongoing basis, for all in-scope arrangements completing assessments, with consequences attached? In particular, we are interested in feedback in how it may impact the assessment outcomes of SETs, bespoke and legacy arrangements.

Question 32: Do you agree with the proposal for multi-employer arrangement consideration of minimum, median and maximum? Why or why not?

As mentioned previously, year 1 simplification is supported.

However, we **question the proposal to potentially apply this on an ongoing basis** and support consistency and member understanding over ease of compliance once the framework is embedded and comparator data is reliably and easily available.

Chapter 9: Actions for arrangements offering poor value

Question 33: Do you agree with the proposed actions for not value arrangements? Why or why not?

We agree with the proposals for Red rated assessments, and note that rationalisation must also consider the impact on members of a transfer.

With regard to Amber rated assessments, we have **consistently advocated against short term precipitous action** that may ultimately not be in member interest and some accommodation for the vagaries of investment performance and not disincentivising outperformance and innovation efforts. We are therefore supportive of the final proposals that call for an action plan and period of up to three years to turn things around. Persistently Amber-rated arrangements will automatically lead to a red and the associated consequences if the efforts of the scheme are not fruitful.

We also **recommend that regulators consider remedial transfers at an aggregate as well as an individual-arrangement level.** Where several arrangements require remediation during the same period, transfers could create operational, liquidity and market-concentration effects that are not apparent when each case is assessed independently. Monitoring the cumulative destination of VFM-induced transfers would also help establish whether the Framework is improving competitive selection or unintentionally reinforcing concentration among a limited number of receiving providers.

Chapter 10: Disclosure Requirements

Question 34: Do you anticipate that a shorter initial data collection period would create any practical or analytical challenges, and if so, how might these be mitigated?

Please refer to our response to Q2.

Question 35: Do you agree to proceed with data publication in November given the risks identified? How likely are these risks to emerge and what steps could we take to address them effectively?

We **maintain our disagreement with the November data release proposal** on the following grounds:

- This damages transparency and goes against the principle of making data accessible to investors once it is available.
- It may potentially impact member outcomes if material data was withheld and prevented timely action due to access being denied
- From a practical perspective there is in any case a risk of data being leaked into the public domain

We recognise premature disclosure creates a risk of misinterpretation of raw data in isolation from the trustee/IGC narrative assessment and may lead to some members exercising (what subsequently proves to be) an incorrect choice. But on balance feel that this risk can be **mitigated by clearly labelling it as provisional and accompanied by prominent caveats** that the VFM assessment has not been done yet.

APPENDIX II

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