FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP26/40**

Exempting performance fees from the workplace pensions charge cap

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Chapter 1

Summary

1.1 The total value generated from pension savings is what ultimately delivers the comfortable later lives to which we all aspire. Over the next few years, we expect the defined contribution (DC) pensions market to shift from a simple focus on cost towards wider value.

1.2 The charge cap was introduced in 2015. It limits charges to 0.75% of funds under management in workplace default pension funds. It applies to trust-based schemes through legislation and is replicated for contract-based schemes through FCA rules. The cap was introduced because employers may have limited ability to influence the charges applied to their employees' pension savings and to ensure all savers would benefit from lower charges.

1.3 In its current form, the charge cap may no longer be appropriate for the market. The contract-based cap limits pension schemes from considering asset classes in which performance fees are more common, thereby potentially reducing the value that they can deliver. This includes private markets – e.g. private equity, venture capital and private credit funds, which own assets privately that have not been issued and listed in the public markets. This hinders investment in private assets which can benefit workplace pension savers through access to a broader investment opportunity set, with the potential for improved diversification and higher net returns over the long term.

1.4 In 2023, the Department for Work and Pensions (DWP) exempted certain performance fees from the charge cap to support pension fund investment in private assets, alongside DWP Statutory Guidance covering member protections.

1.5 We now propose to exempt certain performance fees from the charge cap for workplace default pension schemes operated by FCA-regulated firms. This recognises the benefits of removing barriers to private market investment where this is in savers' best interests, and minimising costs through regulatory alignment.

1.6 Providers will, however, need to maintain strong controls when agreeing performance fees, ensuring that they are in savers' interests. That includes being confident, in so far as possible, that performance fees lead to additional value that exceeds the expected cost and that could not have been achieved with a flat fee-based structure.

1.7 Our proposals in this consultation paper seek to replicate existing legislation and Statutory Guidance for trust-based schemes. In a limited number of areas, we propose additional safeguards and clarifications reflecting developments in the market since 2023 and recent supervisory insights. The overall objective is to support alignment across the trust-based and contract-based workplace pensions markets.

1.8 In particular, the FCA's multi-firm review of valuation processes for private market assets has informed targeted proposals on valuation governance due diligence, helping to ensure that existing policy objectives are achieved as private asset investment increases.

1.9 We rely where possible on the Consumer Duty (the Duty). We also rely on pre-existing outcomes including FCA Principle 2 that a firm must conduct its business with due skill, care and diligence, and the client's best interest rule requiring firms to act honestly, fairly, and professionally in accordance with the best interests of their clients. We set out guidance, adopted from the trust-based regime, on how firms can comply with these expectations with regards to specific controls for investments with performance fees.

1.10 In some places, in order to address specific risks and to align with the trust-based performance fees regime, we also propose new rules and guidance. This includes new rules setting out criteria for qualifying for the performance fee exemption.

1.11 Together with DWP, we are seeking to align the performance fee regime for trust-based and contract-based schemes. Aligning the regime can open opportunities for greater consolidation and investment. This will be based on the responses received from this consultation, testing the evidence base for reform. This follows the Mansion House Accord agreed in May 2025, where 17 major UK pension providers cited alignment on the charge cap between trust-based and contract-based schemes as a 'critical enabler' for their voluntary commitment to allocate investment to private assets, including in the UK.

1.12 There are also some further technical differences between the trust-based and contract-based regimes and our proposals reflect, for example, the different regulatory framework for contract-based arrangements and the role of Independent Government Committees.

What we want to change

1.13 This consultation paper sets out our proposed approach to:

- **Definition of performance fees** – align with the trust-based legislative definition of performance fees to be exempted from the charge cap, with an additional pre-agreed term set out below.
- **Transparency and look-through disclosure** – setting out a proposed new information sharing obligation pre-agreed term; clarifying that providers have the ability to request information on performance fees from funds to support the assessment of value and member fairness; as well as adopting key requirements from Statutory Guidance on disclosure reporting to scheme members.
- **Commercial terms** – relying on the Duty to mirror requirements from Statutory Guidance on how providers consider risk and return, how the performance fee links to the net benefit return that savers could receive, and seeking professional advice on investments.
- **Fairness between savers** – adopting requirements from Statutory Guidance including that schemes should work with fund managers to consider how performance fees should be charged in a way to ensure fair allocation towards savers; additionally relying on the Duty for scheme providers to ensure that a pension product provides fair value and that fees are reasonable compared to benefits.

- **Due diligence on governance and valuation practices** – setting out a requirement that scheme providers should carry out due diligence of managers' valuation governance. Where an operator cannot establish that appropriate policies and procedures are in place, the firm must not proceed with the investment.
- **Physical asset costs** – introducing an exemption from the charge cap for physical asset costs, largely mirroring the exemption on the trust-based side except for the cost of valuing an asset.

Next steps

1.14 We would be grateful for responses to this consultation by Thursday 14 January. Following review, our current expectation is that we will make final rules in summer 2027. We will share the consultation evidence and findings with DWP to inform their understanding of the evidence base on how the framework operates in practice, including its role in promoting investment in private markets. DWP will consider any potential changes to the trust-based market on a case-by-case basis, based on stakeholder feedback, supporting evidence and the case for intervention.

Chapter 2

Definition and scope of exempt performance fees

Introduction

2.1 This chapter sets out our proposed approach to exempting certain performance fees from the charge cap and the conditions for such fees to qualify for the exemption. The chapters following then set out proposed consumer protection measures in relation to transparency, commercial terms, fairness between scheme savers, and due diligence on governance and valuation practices.

2.2 Our aim is to align regimes governing trust-based and contract-based schemes as far as possible. The FCA regulates contract-based pensions, which involve a contract between an individual and the pension provider. The Pensions Regulator (TPR) regulates trust-based pension schemes, which have a board of trustees overseeing the scheme. This is the same approach we are taking across other initiatives such as the Value for Money and Scale initiatives currently being developed. The intention is to ensure consistent benefits and protections for savers in both types of schemes, minimise administrative burden for providers operating across trust-based and contract-based schemes, and avoid the potential for regulatory arbitrage.

2.3 In order to stay closely aligned, we propose the starting point of mirroring both the criteria for exempting performance fees from the charge cap for trust-based schemes and the member protections described in Statutory Guidance. However, in some limited areas, we think there is evidence for introducing additional requirements where consumer protection is needed for specific risks.

2.4 The proposal to exempt certain performance fees from the charge cap is permissive rather than mandatory. As discussed below, we propose that firms should only use the exemption where they consider it consistent with acting to deliver good outcomes for savers and can comply with the proposed consumer protection requirements. Wider work to support increased professionalism of pension providers should also help mitigate the risks associated with investing in private assets.

2.5 Discussions with industry have also suggested some challenges over consistency in applying the definition of the charge cap itself, with uncertainty over whether some types of charge fall within or outside the cap which can result in legal expenses in determining this. We believe that employers with default pension schemes and scheme savers should be able to understand the principles that have determined which costs have been capped as administrative costs and which are exempt as transaction costs. Whilst we have not made any specific proposals, we welcome any feedback on this wider point and what further action would be helpful to provide greater clarity including potentially industry-led solutions.

Question 1: **Are there areas of uncertainty in the criteria for inclusion in the charge cap – including the definitions of 'transaction costs' and 'administrative charge' – and if so, can you provide specific examples and proposals for how they should best be addressed?**

2.6 In this consultation, we use the term 'provider' to mean the firm that manages the pension scheme. This is in line with general usage in similar documents such as the Value for Money consultations. In the proposed Handbook rules and guidance we use the term 'operator' to ensure consistent use of Handbook glossary terms. Both terms should be taken as referring to the same entity.

Background

Performance fees

2.7 Performance-based fees aim to align the financial interests of the investment/fund manager and investors. They are frequently used in relation to investment in privately traded assets such as private equity, venture and growth capital, and private credit as well as liquid alternative funds.

2.8 The structure of fees in private markets varies. The most common structure is a combination of a fixed annual management fee linked to the value of the investment and paid irrespective of return, and a performance element which is payable upon investment returns exceeding a certain pre-agreed rate of return. Performance can also be reflected through profit share mechanisms such as carried interest which represent a share of profits rather than a fee.

2.9 Examples of performance fees include:

Fund type	Performance fee
Traditional closed-ended limited partnership	Typically, a 2 and 20 model, where the general partner takes 20% of the carry above the hurdle rate return to the limited partner.
LTAF	Smoothed performance fee, triggered upon exceeding a benchmark preventing sharp fee spikes.
Open-ended funds	Performance fees in open-ended funds are compensation structures where managers earn a percentage of profits. Unlike closed-ended structures, open-ended funds may have continuous capital inflows and redemptions, requiring specialised accounting to ensure investors pay fees fairly based on their exact entry and exit dates where possible (grouping by month also acceptable). In some cases, firms may also use valuations to calculate management and performance fees paid by investors.
Fund of funds	Involves a layering of profit-taking, often referred to as a "fee-on-fee" drag. Managers of the underlying funds take their standard fees. Additionally, the fund of funds manager takes a fee managing the portfolio. This is typically a 0.5% to 1.0% management fee and sometimes a smaller 5% to 10% carried interest tier on top of the overall portfolio performance.

The charge cap

2.10 FCA rules apply a cap on administration charges within default funds equivalent to 0.75% per year of funds under management. An administration charge is a charge that is taken from a member's accrued rights, investment gains or otherwise, and does not result in the provision of pension benefits for that member i.e. fees for running the fund. These charges are capped unless one of the existing exemptions apply (e.g. for transaction costs).

2.11 Administration charges currently levied by schemes are generally well below the 0.75% charge cap. The DWP's The Pension Provider Survey 2024-2025 found that median averages for annual management charges were 0.32% and 0.24% for Multi-Employer Providers and Single-Employer Trusts respectively.

2.12 In a market that has traditionally been based on cost, market forces and competition have kept costs down. However, schemes also advise that they are achieving low charges under the cap in part by limiting investments in private assets. The cap creates compliance risk for schemes investing in private assets with performance fees due to the nature of private markets. Private asset costs are less predictable than public market fund costs because returns are valuation-based until exit and individual assets can be difficult to liquidate. Strong performance generating higher performance fees may also result in a breach of the cap.

2.13 The shift from cost to value-based approaches in the pensions market means that a cap that results in compliance risk for firms that invest in private assets with performance fees is no longer appropriate. However, while greater investment in private assets has the potential for diversified returns, such investments can be harder to assess and manage, with performance fees increasing the risk that pension scheme members are exposed to unnecessary and potentially unfair charges. Where members are invested in default funds, they will not have actively chosen to be exposed to such investments. This underlines the need for proper consumer protections so higher charges are only paid where there is a strong probability of better returns for investors.

Value For Money framework

2.14 Under existing Handbook rules, Independent Governance Committees (IGCs) must assess the ongoing value for money (VFM) of all charges borne by members, including administration charges and transaction costs. Performance fees are currently captured in these obligations as administration charges and we intend them to continue to be captured even where they are exempt from the charge cap.

2.15 Together with DWP and TPR, we are currently introducing a new VFM framework which will supplement the existing VFM regime, with final rules expected H1 2027. We will introduce any necessary changes to the VFM regime to maintain the position of all performance fees being included in VFM assessments through the final charge cap rules.

Proposals

2.16 This section sets out our proposed approach to exempting performance-based fees from the charge cap. We mirror the approach to exempting 'specified performance-based fees' set out in Government regulations for trust-based schemes and expanded upon in Statutory Guidance, which sets out criteria which trustees and managers must have regard to when determining whether a performance fee qualifies for the exemption.

Definition of fees that qualify for the exemption from the charge cap

2.17 Fees would qualify for the exemption from the charge cap if the relevant fees meet two conditions. Firstly, they are fees calculated solely by reference to increases in investment performance, i.e. they are in substance performance fees. This would be a principles-based requirement so would include, for example, arrangements not formally structured as a performance fee such as the carried interest model of profit sharing.

2.18 Given the variety in arrangements, we don't think it's practical to give a definitive list of charges that would be included in this definition of exempted performance fees. However, we welcome feedback on how well this definition has worked in practice for trust-based schemes, for example in preventing firms from inappropriately exempting non-eligible costs from the charge cap.

2.19 Secondly, a minimum set of requirements would need to be pre-agreed between provider and manager at the point the investment is entered into. These pre-agreed terms would provide consumer protection by ensuring the provider understands and agrees how performance fees are to be calculated, and when and how payment is due. The terms would also aim to mitigate the effects of short-term fluctuations in investment performance.

2.20 Where investments are to be made in funds in which the provider does not have the opportunity to directly negotiate terms, the operator would need to confirm that terms are in place covering the matters required by our rules before making the investment. If they are not, performance-based fees incurred in relation to that investment would remain subject to the charge cap.

Question 2: **Do you agree with our proposed approach to adopting the legislative definition of 'specified performance-based fees'? If you do not agree, please set out your reasons why. In particular, is the definition sufficiently clear or are there areas where greater clarity would be helpful?**

Question 3: **Do you believe that the pre-agreed terms adopted from the trust-based legislative framework would enable providers to understand the performance fees charged and when they will become due? If you do not, please set out your reasons for why. Please answer for both a) single funds and b) fund of funds.**

Question 4: **Would other measures (legislative or otherwise) be helpful in ensuring only performance fees are exempted from the cap? Please explain what and why.**

Fund of funds

2.21 In fund of funds structures and other arrangements, there might be multiple layers of charges. We expect providers to ensure that they have visibility of all performance fees down the investment chain and that they meet the expectations set out above. The manager should ensure that the scheme provider understands and agrees how performance fees are to be calculated, and when and how payment is due. As with all fees, providers would need to be confident that the various layers of performance fees are in savers' interests.

Future operation of the charge cap

2.22 The charge cap has played an important role in protecting members of workplace pension schemes from excessive charging since its introduction in 2015. At the same time, the pensions market, investment landscape and wider policy environment have evolved significantly. This has included increased interest in investments in productive finance and private markets, the development of the VFM framework, and growing levels of consolidation across the DC market.

2.23 As the DC pensions landscape continues to evolve, together with DWP we welcome evidence and views on the operation of the charge cap framework, including any emerging opportunities, challenges or unintended consequences that should be considered.

Question 5: **In light of the evolving DC pensions landscape, is there anything further you would like to tell us about the charge cap, including any emerging opportunities, challenges or unintended consequences?**

Chapter 3

Transparency and look-through disclosure

Background

Transparency between provider and manager

3.1 Providers need to be able to have sufficient information to ensure they fully understand performance fees and on what basis the fees are being paid – both when making the initial investment decision and on an ongoing basis. This affects their initial investment decision, ongoing scrutiny of fees, and ability to ensure fairness between savers, based on when they contribute to and exit the scheme.

3.2 Early engagement with industry has suggested that while some providers report good understanding – especially where they invest directly – other providers can find it challenging to fully understand the performance fees that managers charge.

3.3 Information that providers may want but do not always receive can include, for example, the detailed breakdown of performance fee components, and the distribution between fees and costs. There have been further concerns raised about difficulty in obtaining detail on the calculations used to determine high-water marks.

3.4 This is particularly the case where schemes invest through funds in which they are not a dominant investor or where there are sub-funds with layers of fees involved. Firms have stated that common principles for inclusion of costs and fees within performance fees could be useful here.

3.5 This feedback mirrors TPR's findings in its publication on UK occupational pension fund private market investment, where it found concerns with performance related fees and the opaque nature of some costs and charges.

3.6 We welcome feedback on this and further information on the types of challenges schemes encounter – in particular, the types of information that schemes find challenging to obtain.

3.7 We believe that this gap may reflect one or more of the following, which are compounded by the complexity of fee charging, and the uncertain nature of performance fees:

a. **Lack of common agreement on how data should be shared on a consistent basis-** Fund managers may be willing to share this information but there may be a lack of agreement and clarity on how to do so on a consistent basis.
b. **Lack of clarity in information provided (including for example illustrative or practical examples under different scenarios) or lack of expertise in schemes to request the right information**– in particular where schemes are still growing their expertise in investing in private assets.

c. **Commercial dynamics**- Some fund managers (or sub-fund managers) with the strongest performance may not see it in their commercial interests to share detailed information where investment demand is strong.

3.8 There are already requirements in our rules which are designed to ensure providers, trustees and managers can obtain adequate information for the purposes of governing bodies (trustees and Independent Governance Committees) meeting their disclosure and other obligations. UK fund managers are subject to requirements in COBS 19.8 to take reasonable steps to provide providers with all necessary information when requested by providers. In fund of funds structures, there are also expectations on sub-funds under COLL and FUND to provide investors, including fund of funds managers, with necessary information.

Proposals

Transparency between provider and manager

3.9 We propose that in addition to the pre-agreed terms set out in chapter 2, performance fees would only be exempt from the cap where fund managers have pre-agreed an information sharing obligation requiring them to disclose information relating to the performance-based fee on request.

3.10 Guidance would set out that adequate disclosure would include sharing methodologies for how fees are allocated to performance fee calculations, the breakdown of fee components, and where used, how high-water marks are calculated. In fund of fund structures, this would also apply to fees paid to sub-funds.

3.11 We recognise that this may make some investments out of scope of the exemption, and welcome views on whether this sets the right balance between being clear that providers get the information they need and any impact on investment opportunities. Given the scale of the DC pensions industry, this may also help to encourage provision of the necessary information by managers.

3.12 We also propose clarifying in COBS that the managers' obligation to share information regarding fees includes performance fees.

Question 6: **Do you agree that providers can find it difficult to obtain the information they need to fully assess and monitor performance fees? Please can you give specific examples of the types of data that is hard to obtain? Is this difficulty limited to certain kinds of provider and investment? Why do you think there is this difficulty?**

Question 7: **Do you believe that an additional pre-agreed term requiring funds to be subject to an information sharing obligation is necessary? Would this limit the range of investments available to providers? If not, please state why. Please consider for both a) single funds and b) fund of funds.**

Question 8: **Do you agree that the detail set out in the guidance for adequate disclosure as part of the information sharing obligation is necessary? Are there areas where further detail would be useful?**

Transparency with IGCs

3.13 IGCs have an important role to play in ensuring performance fees are appropriate and paid in line with expectation. Both IGCs and the providers they scrutinise need to have the information necessary to achieve this. As well as clarifying that requirements on providers to share information with IGCs extends to performance fees, we propose to refer explicitly to scrutinising performance fees as part of IGC's wider role.

Question 9: **What other steps – including industry-based or non-legislative interventions – might be helpful in addressing this?**

Question 10: **Do you agree it would be helpful to clarify that COBS 19.8 rules on firms providing information on costs and charges to providers cover performance fees? Please set out why.**

Question 11: **Do you agree with incorporating references to all performance-based fees into the relevant parts of the IGC terms of reference and disclosure obligations?**

Disclosure to members

3.14 The legislative regime for trust-based DC schemes sets out requirements for reporting to scheme members on performance fees.

3.15 Where disclosure expectations are not expressly covered in existing Handbook obligations on providers, we propose drawing on the relevant principles in the Statutory Guidance in new Handbook guidance. This includes, for example:

- **Supplementary disclosures.** Firms may consider supplementing regulatory disclosures in the annual disclosures by IGCs to add additional context to performance-based fees such as the assets and funds to which the specified performance fees relate. There could be additional disclosure at periods more frequently than annually which could aid, for example, with the fair treatment of members that may join or leave a scheme part way through a scheme year.

- **Fund sheets.** Further information on performance fees could be reported to members in the normal course of reporting, for example by making use of guides and fund sheets.

3.16 Scheme providers have also raised concerns that the lack of agreement on how data should be shared on a consistent basis could extend to information shared with members. There were concerns that other providers might present performance-related fees in a way that looks more favourable.

3.17 We are not proposing at this stage any specific measures such as a more prescriptive information disclosure regime but welcome further views on the extent to which this is a problem and how it might be addressed, including the potential for non-legislative options such as sharing of best practice.

Question 12: **Do you agree with our approach towards disclosure? Please answer for disclosure by a) fund managers to providers, b) providers to IGCs, and c) providers and IGCs to members.**

Question 13: **Might other steps (legislative or non-legislative) be useful to ensure performance fee data is disclosed to firms and members on a consistent basis?**

Chapter 4

Commercial terms

Background

4.1 This chapter sets out the factors that pension scheme providers would be required to consider when agreeing commercial terms with fund managers for investments in private assets which are subject to performance fees.

4.2 A key rationale for exempting performance fees from the charge cap is to enable larger allocations to private assets subject to performance fees that may provide higher growth or diversification for scheme portfolios. As such, there is an expectation that schemes only invest in private assets subject to performance fees where these investments are likely to provide additional value not possible with a flat-fee structure.

4.3 The trust-based regime sets out expectations on scheme providers when considering and negotiating terms for investments which involve performance fees. The trust-based regime covers commercial incentives, consideration of how the rate or performance fee amount directly links to the net benefit return that scheme savers could receive, and the use of professional advice.

4.4 We consider the substance of the requirements to be already expected under FCA requirements including the Duty. We clarify expectations on providers below where appropriate. We do not propose to add additional requirements.

Proposals

4.5 We consider that pre-existing FCA rules, including the Duty, already achieve the same outcomes as the expectations set out in legislation for trust-based schemes. We clarify some of the main provisions below:

Commercial incentive	Statutory Guidance sets out the expectation for schemes to aim to maximise returns, while considering the risks taken to achieve those returns, and whether the additional incentive provided by a specified performance-based fee is expected to lead to additional value that outweighs the expected cost to members. The Statutory Guidance also sets out measures for assessing positive additional returns. We consider that these requirements are covered by existing general obligations including under the Duty. In particular, the client's best interest rule and the Duty's crosscutting rule to act in good faith towards customers underpins our expectations here. The products and services outcome also requires firms to ensure that the design of the product or service meets the needs, characteristics and objectives of members. Regarding the scheme provider assessing whether expected additional value is expected to outweigh additional costs for members, this is covered by above standards as well as the price and value outcome, where firms are expected to ensure that products and services provide fair value. That means that the price a customer pays for a product or service is reasonable compared to the overall benefits they receive.
Consideration of the rate	Statutory Guidance sets out expectations for schemes to give consideration to how the rate or performance fee amount directly links to the net benefit return that scheme members could receive. We consider that these requirements are covered by existing general obligations and the Duty. These include FCA Principle 2 which sets out that a firm must conduct its business with due skill, care and diligence, and the Duty price and value outcome, where firms are expected to ensure that products and services provide fair value
Professional advice	Statutory Guidance sets out that schemes should seek professional advice on their investments where performance-based fees may be incurred and when evaluating any investments. We expect firms to determine, in compliance with their general obligations, whether such advice is required – for example this may not be needed if they have sufficient internal expertise managing one asset class but not others. This clarifies providers' existing obligations under the Duty and other general requirements. These include Principle 2, the client's best interest rule and the Duty good faith cross-cutting obligation.

Question 14: Do you agree that existing obligations on firms, including the Duty, are sufficient for setting expectations on providers when assessing commercial terms before making investment decisions?

Chapter 5

Fairness between savers

Background

5.1 This chapter sets out our proposed approach to fairness between scheme savers in relation to sharing the costs and benefits of performance.

5.2 Performance fees are normally payable when investments in private assets surpass the hurdle rate, which may take time to materialise. The time period of investment which generates the performance fee however may not necessarily align with the period in which a pension saver is invested. As such, there is a need for schemes to allocate fees to reflect the relative benefits each member has obtained and a corresponding risk that performance fees are not allocated fairly amongst savers.

5.3 In its publication on UK pension fund private market investment, TPR also found that some DC and master trust trustees and providers also raised concerns around the potential for cross-subsidisation between different cohorts of savers in relation to performance-based fees.

Proposals

5.4 We want to ensure that, as far as possible, members who pay fees are the same members who benefit proportionately from performance. This is difficult to achieve precisely on an investment by investment basis, but providers should take reasonable steps to apportion costs and benefits appropriately. We also expect there to be fairness overall across the portfolio, which can be supported by portfolio-level steps such as performance fees being paid on a proportionate portion of assets limiting any disparity, or through an ongoing pipeline of assets so savers are exposed to assets at different phases from greenfield/ development stage through to brownfield through to secondary operational stage.

5.5 As mentioned elsewhere in our proposals, we also want scheme providers to ensure their pension products provide fair value and that fees charged are reasonable compared to the overall benefits of the investment. In setting out our expectations here we rely on the Duty.

5.6 In order to provide greater detail on our expectations, we propose to incorporate the aspects of the Statutory Guidance covering fair allocation as guidance on the Duty and other existing obligations. The Statutory Guidance sets out that schemes should work with fund managers to consider how performance-based fees should be charged in such a way to ensure fair allocation towards members.

Additional requirements

5.7 We recognise that this is a challenging area to get right- and an area that can depend both on technical determinations and judgements over materiality. We believe it is an area where non-regulatory approaches such as sharing industry good practice could play a valuable role.

Question 15: **Does our proposed adoption of the principle of providers working with managers to ensure fair allocation provide a sufficient basis to ensure fair allocation between savers?**

Question 16: **Are further rules or guidance needed here to increase fairness between savers?**

Chapter 6

Due diligence on valuation practices and governance

Background

6.1 This chapter sets out our expectations for how pensions scheme providers should conduct due diligence on, and monitor, fund valuation practices and governance at the manager they contract with. While the proposed requirements build on both Statutory Guidance for trust-based schemes and the Duty, they introduce specific additional requirements on providers.

6.2 Whereas public markets have public prices, analyst coverage, and regular reporting, these are not present in private markets. Following deal acquisition, valuations are conducted periodically, usually with low frequency. Valuations are model-based and rely heavily on the judgement of the private asset manager or their third party valuer. The valuation of private assets means that process, governance and transparency attempt to replicate objective pricing in public markets.

6.3 We want pension scheme providers that are investing in private assets to do so only where they have assured themselves that the managers responsible for the investment have appropriate valuation governance arrangements in place. While not second-guessing managers' undertaking of valuations, pension scheme providers should have oversight and the ability to challenge the underlying funds valuation governance to ensure that performance is not inflated to secure higher performance fees. Valuations should be subject to appropriate governance, independence, challenge, conflict management and controls.

6.4 In designing these requirements, we have considered findings from the FCA's recent multi-firm review and the International Organisation of Securities Commissions (IOSCO) Recommendations on Valuing Collective Investment Schemes: Final Report.

Proposals

6.5 We believe that where schemes are investing member savings, they should be confident that they have a strong understanding that there is a robust framework for valuation governance, given that these underpin performance fee calculation.

6.6 We are therefore setting out a proposed valuation governance due diligence framework. Operators must establish on reasonable grounds that appropriate policies and procedures are in place for the valuation of the managed investments. If an operator cannot establish this, the operator must not proceed with making the investment. We also propose that operators should work with the manager post-investment to monitor the appropriateness of valuation practices and governance in relation to the impact of performance fees on savers.

6.7 In carrying out this due diligence, we propose guidance setting out that operators should assess the below aspects of a fund's valuation arrangements. We note that these proposals are separate but complementary to our recent plans for an updated approach to valuation rules for alternative investment funds (AIFs) as set out in CP26/28.

- Governance – Whether a fund manager's governance arrangements ensure there is clear accountability for valuation and robust oversight of the valuation process.
- Independence – Whether a fund has sufficient independence in their valuation functions.
- Conflicts – Whether firms identify, document and mitigate or manage conflicts. As set out in the multi-firm review, this includes areas of heightened conflicts such as manager-led transactions such as continuation vehicles or other situations where managers sit on both sides of transactions or have incentives to elevate fees.
- Methodology and models – Whether firms apply valuation methodologies and assumptions consistently and make valuation adjustments solely on the basis of fair value.
- Auditors – Whether firms support external auditors to perform their role by involving them in the valuation process.
- Frequency – Whether firms have considered incorporating a defined process for ad hoc valuations to mitigate the risk of stale valuations.
- Third party – Where firms use third-party valuation advisers, whether their use is appropriately overseen and potential commercial conflicts identified and managed.

Question 17: **Do you agree with codifying the principles above as a due diligence framework for schemes investing in private assets funds?**

Question 18: **Are there any consequences of this approach that we should consider?**

Chapter 7

Physical asset costs

Background

7.1 In 2021, DWP formalised an exemption from the charge cap of costs attributable to holding physical assets. This was originally set out in non-statutory guidance published in 2016 and was put on a statutory basis to give greater certainty to trustees and managers. The scope includes physical assets whose value depends on its physical form including land, buildings and other structures on land or sea, vehicles, ships, aircraft or rolling stock, and commodities. The following costs are covered by its formulation on a non-exhaustive basis: the costs of managing and maintaining the asset; fees for valuing the asset; the costs of insuring the asset in question; and ground rent charges, rates and taxes incurred in relation to the asset.

7.2 To date, the FCA has not set out an equivalent exemption from the charge cap for physical asset costs. As we are considering exemptions from the charge cap, it makes sense to consider this now. The FCA does have an exemption in the Consumer Composite Investments (CCI) Regime in relation to costs associated with some physical assets. However, we believe that alignment with the DWP scope is more appropriate for our purposes here. A similar approach in the Handbook to the trust-based approach will assist firms active on both sides of the market with applying this exemption.

Proposals

7.3 The FCA is proposing to exempt physical asset costs for assets such as property and infrastructure from the charge cap for contract-based schemes, following a similar exemption on the trust-based side. We believe that the costs of owning and operating physical assets, such as the maintenance of buildings owned in a real estate portfolio, should not distort charge cap calculations and disclosures.

7.4 We propose that the exemption largely aligns with the DWP exemption. However, we note that all private assets require valuation, and that the cost of valuing private assets is not unique to the cost of holding physical assets. We do not therefore propose to exclude valuation fees from the charge cap and these will remain capped. This is a divergence from the DWP exemption.

Question 19: **Do you agree with our proposal to exempt physical asset costs from the charge cap?**

Question 20: **Do you agree that the costs of valuing an asset should be out of the scope of the exemption and therefore remain a capped administrative charge?**

Question 21: **Should any other costs associated with holding physical assets be added or removed?**

Chapter 8

How to respond

We are asking for comments on this Consultation Paper (CP) by **14 January 2027**.

You can send them to us using the form on our website at:
https://www.fca.org.uk/publications/consultation-papers/cp26-40-exempting-performance-fees-workplace-pensions-charge-cap

Or in writing to:

Felix Grenfell Bozek
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Telephone: 020 7066 8810

Email: cp26-40@fca.org.uk

To read how we will use your response and how it will be disclosed, visit:
Consultation responses: your confidentiality and personal data

Further information about the FCA's use of personal data can be found on the FCA website at: https://www.fca.org.uk/privacy.

FCA, TPR and DWP will carefully consider these comments. We will share the findings from our consultation with TPR and DWP to inform their understanding of the evidence base on how the framework operates in practice, including its role in promoting investment in private markets.

If you choose not to respond using our online form, please let us know whether you consent to your name and response being made available to the public.

Please be sure to let us know in what capacity you are responding. If you are responding from an organisation, we will assume that the respondent is the organisation and will publish that name, unless you indicate that you are responding in an individual capacity (in which case, we will publish your name).

Annex 1

Questions in this paper

Question 1: Are there areas of uncertainty in the criteria for inclusion in the charge cap – including the definitions of 'transaction costs' and 'administrative charge' – and if so, can you provide specific examples and proposals for how they should best be addressed?

Question 2: Do you agree with our proposed approach to adopting the legislative definition of 'specified performance-based fees'? If you do not agree, please set out your reasons why. In particular, is the definition sufficiently clear or are there areas where greater clarity would be helpful?

Question 3: Do you believe that the pre-agreed terms adopted from the trust-based legislative framework would enable providers to understand the performance fees charged and when they will become due? If you do not, please set out your reasons for why. Please answer for both a) single funds and b) fund of funds.

Question 4: Would other measures (legislative or otherwise) be helpful in ensuring only performance fees are exempted from the cap? Please explain what and why.

Question 5: In light of the evolving DC pensions landscape, is there anything further you would like to tell us about the charge cap, including any emerging opportunities, challenges or unintended consequences?

Question 6: Do you agree that providers can find it difficult to obtain the information they need to fully assess and monitor performance fees? Please can you give specific examples of the types of data that is hard to obtain? Is this difficulty limited to certain kinds of provider and investment? Why do you think there is this difficulty?

Question 7: Do you believe that an additional pre-agreed term requiring funds to be subject to an information sharing obligation is necessary? Would this limit the range of investments available to providers? If not, please state why. Please consider for both a) single funds and b) fund of funds.

Question 8: Do you agree that the detail set out in the guidance for adequate disclosure as part of the information sharing obligation is necessary? Are there areas where further detail would be useful?

Question 9: What other steps – including industry-based or non-legislative interventions – might be helpful in addressing this?

Question 10: Do you agree it would be helpful to clarify that COBS 19.8 rules on firms providing information on costs and charges to providers cover performance fees? Please set out why.

Question 11: Do you agree with incorporating references to all performance-based fees into the relevant parts of the IGC terms of reference and disclosure obligations?

Question 12: Do you agree with our approach towards disclosure? Please answer for disclosure by a) fund managers to providers, b) providers to IGCs, and c) providers and IGCs to members.

Question 13: Might other steps (legislative or non-legislative) be useful to ensure performance fee data is disclosed to firms and members on a consistent basis?

Question 14: Do you agree that existing obligations on firms, including the Duty, are sufficient for setting expectations on providers when assessing commercial terms before making investment decisions?

Question 15: Does our proposed adoption of the principle of providers working with managers to ensure fair allocation provide a sufficient basis to ensure fair allocation between savers?

Question 16: Are further rules or guidance needed here to increase fairness between savers?

Question 17: Do you agree with codifying the principles above as a due diligence framework for schemes investing in private assets funds?

Question 18: Are there any consequences of this approach that we should consider?

Question 19: Do you agree with our proposal to exempt physical asset costs from the charge cap?

Question 20: Do you agree that the costs of valuing an asset should be out of the scope of the exemption and therefore remain a capped administrative charge?

Question 21: **Should any other costs be added or removed associated with holding physical assets?**

Question 22: **Do you have any comments on our cost benefit analysis? Please provide supporting evidence, including quantified estimates where possible.**

Annex 2

Cost benefit analysis

Executive summary

1. This cost benefit analysis (CBA) assesses our proposal to exempt specified performance fees from the 0.75% charge cap which applies to FCA-regulated workplace default pension schemes. The proposal is intended to remove a regulatory barrier to greater investment in private markets, particularly for firms that have signed the Mansion House Accord (MHA), while maintaining appropriate protections for savers.

2. We are intervening because the existing charge cap may limit pension schemes' ability to invest in private markets. We have identified 2 main drivers of harm under the existing rules:

    1. **Outdated regulation** – the charge cap was not designed for the growth of private markets and subsequent allocations now expected under the MHA or the associated variable performance-fee structures, and may restrict access to an increasingly important part of the investable opportunity set as companies remain private for longer.
    2. **Misaligned incentives** – strong private asset performance can generate performance fees that create a risk of breaching the cap, which may deter firms from selecting otherwise suitable investments.

    We expect that addressing these 2 harms will lead to greater investment in private markets which may also increase savers' exposure to risks that firms need to manage:

    3. **Consumer risks from increased private market investment** – private markets are complex and opaque so savers rely on others to make investment decisions on their behalf, creating information asymmetries and agency problems.

3. The intervention is permissive rather than mandatory. We focus our quantitative analysis primarily on the 8 MHA signatories operating contract-based schemes that have identified the charge cap as a constraint on increasing private market allocations.

4. Our baseline assumes that, without the proposed exemption, asset allocation in relevant default funds remains broadly in line with current levels. On that basis, savers would continue to have limited exposure to private markets through contract-based default arrangements.

5. The main expected benefit is that savers will gain access to a broader investment opportunity set, with the potential for improved diversification and higher net returns over the long term. Pension schemes' long investment horizons make them well placed to hold illiquid assets. Without access to suitable private assets, savers may therefore miss investment opportunities that could improve long-term net returns.

There may also be wider economic benefits if increased pension investment provides capital to UK companies, infrastructure and other productive assets.

6. We estimate, based on assumptions of returns from capital market assumptions (CMAs), that increased private market investment could increase median net returns to savers by 2.1% over the 10-year appraisal period. Across the hundreds of billions of pounds of in-scope pension scheme assets held by MHA firms, this relatively small increase translates into estimated monetised benefits of £10.9bn to £18.0bn, compared with costs of £3.9bn to £8.1bn in present value (PV) terms. Our central estimates are £14.3bn of benefits and £5.5bn of costs, giving a net present value (NPV) of £8.8bn. Although large in absolute terms, the NPV reflects a relatively small increase in returns applied across a large asset base. Our risk-adjusted analysis gives a similar welfare gain of around 2.1%, with certainty-equivalent annual returns increasing from 8.45% to 8.68%.

7. The main costs and risks come from higher and more complex fees, valuation uncertainty, illiquidity, additional governance requirements, poor manager selection and the risk that private markets underperform. Our proposed safeguards aim to ensure that performance fees reflect genuine performance and that firms appropriately manage valuation, transparency, fairness and due diligence risks.

8. Our monetised estimates should not be viewed in isolation. We have assessed the proposals using a combination of Monte Carlo modelling, macroeconomic modelling, firm engagement, qualitative analysis and illustrative case studies, which together inform our assessment of the likely benefits, costs, risks and uncertainties.

9. The charge cap may not be the primary obstacle to achieving the MHA investment allocations. However, we assume for modelling purposes that the exemption enables the modelled increase in investment, as the MHA identifies alignment on the scope of the charge cap as one of the "critical enablers" of signatories' commitments. We use breakeven analysis to assess how much of the modelled benefit must be attributable to the exemption for monetised benefits to exceed monetised costs.

10. We also assume there are sufficient suitable private market assets to absorb additional investment without materially reducing expected returns, other policy initiatives do not independently deliver the same outcome in the baseline, standard fee structures remain broadly unchanged, and firms do not restructure assets between trust-based and contract-based arrangements in a way that materially changes the baseline.

11. Overall, we consider the proposal represents a proportionate rebalancing of risk. It may improve long-term saver outcomes and support wider productive investment, but introduces additional risks from fees, illiquidity, valuation uncertainty and manager selection. We consider these risks tolerable because the exemption is permissive and subject to safeguards, while removing uncertainty that may deter schemes from otherwise suitable private market investments.

Summary of impacts

Social impact

Table 1: Total monetised benefits and costs of proposals over 10 years, PV-adjusted (£m)

	PV Benefits	PV Costs	NPV
Monetised impact	**14,315** *10,939 to 17,993*	**5,531** *3,931 to 8,094*	**8,784** *7,008 to 9,900*
Key unquantified items to consider	Wider economic impacts*	Risks of underperformance	

Note: Ranges show the 25th to 75th percentiles of outcomes from our Monte Carlo simulations. Benefits include improved saver returns and additional fee revenue received by asset managers. Costs include the corresponding fees paid by savers and £40m of monetised policy implementation costs for firms. The fee revenue and corresponding fees paid offset each other in the NPV.

* Illustrative macroeconomic modelling estimates a cumulative increase in GDP of around £1.1bn relative to the baseline over the modelled period (2026 prices), although the results depend on several modelling assumptions and could lead to double counting if combined with other estimated benefits.

Business impact

Table 2: Net direct costs to firms

	10-year PV (£m)	EANDCB* (£m)
Total net direct cost to business	**-5,486** *-3,886 to -8,049*	**-633** *-447 to -931*

* Equivalent annualised net direct cost to business

Benefits and costs

Table 3: Summary table of benefits and costs

		Benefits (£m)	Costs (£m)	
		Ongoing (annualised)	One-off	Ongoing (annualised)
Pension schemes	Familiarisation costs and gap analysis		0.3	
	Alignment with DWP's approach		0.0	
	Updating charge cap calculations			Unquantified
	Governance costs			4.6
Private asset managers	Improving valuation practices			Unquantified
	Fee revenue	155 – 752*		
Public asset managers	Fee revenue	298 – 184*		
Savers	Increased performance	819 – 1,155		452 – 936*
	Consumer protection measures	Unquantified		
Total		**1,272 – 2,091**	**0.3**	**456.6 – 940.6**

Note: Ranges show the 25th to 75th percentiles of outcomes from our Monte Carlo simulations.

* Fee payments from savers to asset managers, and the corresponding fee revenue received by asset managers.

12. The Financial Services and Markets Act (2000) requires us to publish a CBA of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

13. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we expect and reaching a judgement about the appropriate level of regulatory intervention.

The Market

14. The commercial workplace defined contribution (DC) market includes contract-based schemes that we regulate, and trust-based schemes regulated by The Pensions Regulator (TPR). Some providers operate both types of schemes and may pool investments across contract-based and trust-based arrangements. Our proposals apply to qualifying default arrangements in contract-based schemes. Trust-based schemes have had a comparable exemption for specified performance fees since 2023, so differences between the 2 regimes may affect providers that operate across both markets.

Mansion House Accord (MHA) signatories

15. In the MHA, signed in May 2025, signatories agreed to voluntarily allocate 10% of their main DC default funds to private markets by 2030, within which at least 5% of the total is in UK private markets. The MHA is an extension of the Mansion House Compact (MHC), signed in 2023 with the intention of allocating 5% of DC pension funds to unlisted equities by 2030.

16. There are 17 signatories to the MHA, 8 of which operate contract-based schemes and are subject to the charge cap. We expect these firms will make use of the new flexibilities afforded by exempting performance fees from the charge cap but acknowledge that other firms may also increase their exposure to private markets.

17. When signing the MHA, current workplace default provider assets under administration (AUA) across all firms were estimated at £252bn. Based on FCA data, we estimate that £206bn of these assets are held in default funds in accumulation at firms with contract-based workplace pension schemes, around a third of the total contract-based workplace market. We expect these schemes to take up a larger portion of the market as consolidation and the government's "megafunds" policy comes into place, leading to all multi-employer DC pension schemes managing at least £25bn in assets by 2030. There is likely to have been growth in assets over the last year which may overstate the share of FCA schemes of the total.

18. The MHA applies to firms' main default funds that typically use "lifestyling" or target date strategies that shift asset allocation as savers get closer to retirement to reduce risk and preserve capital.

19. We recently conducted a survey of firms' asset allocation to support our Value for Money Framework. We asked firms for the asset allocation of their largest default funds and received responses from 8 firms, 7 of which are signatories of the MHA – accounting for over 90% of AUA. We set out the asset allocation of these 7 firms in the Technical Annex to this CBA.

Private and public markets

20. Private markets refer to markets where capital is raised and invested outside of public exchanges, such as the London Stock Exchange. Transactions are generally less frequent and more directly negotiated than in public markets. Some private company shares may be traded through secondary markets, including intermittent trading on PISCES, but private assets are generally less liquid than publicly traded assets.

21. The difference in liquidity is perhaps the most important distinction between public and private markets, but this characteristic gives rise to many other differences, summarised below in Table 4. More detail on the structure, asset classes, fees and historical performance of private and public markets is provided in the Policy context section of the Technical Annex to this CBA.

Table 4: Private and public market comparison

	Private markets	Public markets
Investors	Predominantly institutional	Institutional and retail
Structure	Predominantly closed-ended	Predominantly open-ended
Liquidity	Low – lack of public exchange makes buying and selling assets more difficult	High – lots of buyers and sellers with transparent pricing
Pricing and valuation	Periodic – appraisals based on models	Continuous – mark-to-market
Transparency	Low – infrequent non-standard disclosures	High – mandatory standardised disclosures
Performance metrics	Internal rate of return (IRR) and multiples on paid-in capital	Percentage change
Fees	Layered with fixed and performance-based elements	Single ongoing fee

Source: FCA analysis

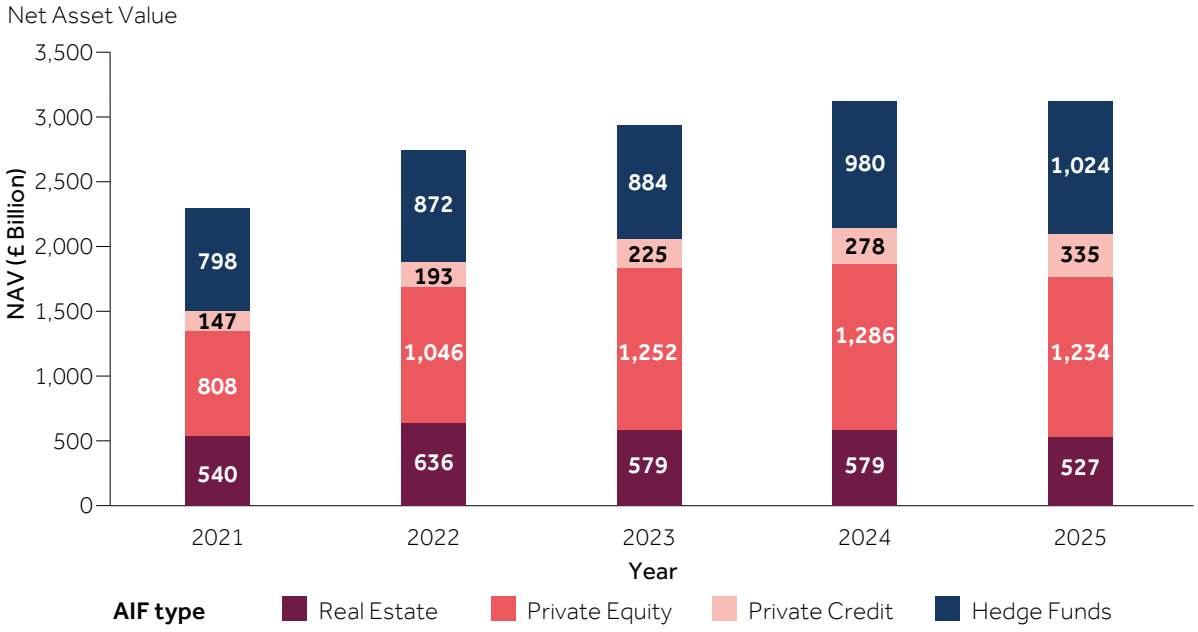
Market size

22. Investment in private assets, particularly in private equity and credit, has increased substantially over the last ten years. Global private markets assets under management (AUM) increased at approximately 20 per cent per annum between 2018 and mid-2023, reaching $13.1 trillion, according to McKinsey.

23. The UK is Europe's leading destination for private capital and is one of the most important globally. In 2025 UK-managed funds raised £58.7bn to be deployed globally, rebounding from £34.8bn in 2024.

24. Our analysis of Alternative Investment Fund Managers Directive (AIFMD) data suggests that as of 2025 there were over 3,000 private equity and 750 credit funds, with a net asset value (NAV) of £1,234bn and £335bn, respectively (see Figure 1). All fund types increased their total NAV between 2021 and 2025, except real estate funds, which experienced a modest contraction of 2%. Private credit and private equity grew significantly, with NAV increasing by 127% and 53%, respectively, over the period.

Figure 1: Growth in the UK AIF market by private market type (2021 to 2025)



Note: Our AIFMD regulatory data does not allow us to identify private credit funds directly. We therefore use a multi-stage process to classify private credit funds. This approach is deliberately conservative and may not capture all private credit funds. Further details of the identification process are set out in our Research Note on the UK AIF market.

Source: AIFMD reporting

Problem and rationale for intervention

25. This section sets out the original rationale for the charge cap and developments since its implementation in 2015, the drivers of harm and the harm that we expect our proposals to address.

The charge cap and developments since 2015

26. The 0.75% charge cap has applied to default arrangements in qualifying schemes used for automatic enrolment since April 2015. It was introduced because most members make no active investment choice and competition alone could not be relied on to protect them from high or unfair charges. Around two-thirds of savers remain in their scheme's main default arrangement, so its performance can have a significant effect on saver outcomes[1].

27. The 2014 Department for Work and Pensions (DWP) impact assessment identified information asymmetries due to the complexity and limited transparency of pension charges, as well as a principal-agent problem because employers selected schemes on employees' behalf but may lack the capability or incentive to act in their interests. DWP concluded that competition and disclosure alone could not be relied on to protect members of default arrangements from high or unfair charges. Our subsequent rules applied the government's policy to contract-based schemes, alongside wider measures on disclosure, governance standards and charging practices.

28. The original economic analysis focused on reducing charges rather than changing investment strategies. The DWP impact assessment estimated benefits to members from lower charges, offset by reduced provider revenue, and treated these effects as transfers on the assumption that portfolios and other factors remained unchanged. Our CBA in CP14/24 largely drew on this analysis, while PS15/5 did not update the CBA because the final rules did not differ significantly from those consulted on. None of this analysis considered private markets, productive finance or whether including performance-based fees within the cap could constrain access to private market investments.

29. The investment environment has now changed. Private markets now form a larger part of institutional investment than when the charge cap was introduced. CFA Institute analysis using Preqin data estimates that private market AUM increased from around $5tn in 2014 to $18tn in 2024. UK DC pension investment in private markets has also increased but remains limited. This growth partly reflects companies remaining private for longer and raising capital outside public markets. As a result, restricting access to private markets may prevent pension schemes from investing in a growing part of the investable corporate sector.

30. The Pension Charges Survey 2020 found that two-thirds of DC occupational pension schemes had no direct investment in illiquid assets in their default funds. More recent evidence suggests allocations have increased, although they remain concentrated in real assets such as real estate and infrastructure. International comparisons are difficult because definitions and pension systems differ, but available evidence suggests UK DC schemes generally allocate less to private and unlisted assets than large Australian superannuation and Canadian pension funds.

31. Automatically enrolled savers continue to require protection from high or unfair charges. The relevant question is whether including specified performance fees within the cap now creates a constraint that was not considered in the original analysis, in a market where private investments and associated fee structures are more significant.

1 PPI's DC future book found 64% of GPP members are invested in their scheme's main default arrangement.

Drivers of harm – charge cap

Outdated regulation

32. While the charge cap has protected savers from higher costs, and most schemes operate well below the cap, it may have had the unintended consequence of limiting investment in private markets. Private market funds often carry higher charges, including performance fees, that would risk a pension scheme breaching its charge cap in the event of strong performance. In the MHA, the charge cap was cited as a key constraint on investment in private markets. As companies remain private for longer, this may also exclude savers from a growing part of the investment opportunity set.

33. The DWP provided an exemption for performance fees in 2023, but the lack of regulatory alignment may be preventing some firms from investing in private markets as their scheme assets are pooled.

Misaligned incentives

34. The charge cap also creates misaligned incentives for firms – they want to deliver strong performance for their savers, but this strong performance gives rise to compliance risk if they exceed the charge cap. The case study below sets out in more detail how this may occur.

Case study: illustrative example of how performance fees can create charge cap compliance risk

This illustrative case study shows how performance fees can create charge cap compliance risk in some high-return scenarios. It is not a forecast or evidence that breaches are common. Our aggregate modelling in the Benefits section suggests breaches occur in around 22% of simulations, although this may not fully capture outcomes for individual schemes or funds with more concentrated private market exposure.

Carried interest is a performance fee paid to a private capital fund manager after investors have received returns above a pre-agreed hurdle. In this example, the hurdle is 8% IRR and carried interest is 20% of realised profits above that hurdle.

The example uses a simplified 5-year private capital investment, with an interim distribution in year 2 and a final distribution in year 5. Carried interest is only paid where returns exceed the 8% IRR hurdle, but sufficiently high returns can generate a performance fee that increases the blended portfolio fee above the 0.75% charge cap. We assume private capital represents 10% of the portfolio, with the remaining 90% invested in a standard portfolio with an illustrative 0.3% fee. We calculate the blended fee by weighting the private capital performance fee and standard portfolio fee by their respective portfolio shares and compare the result with the 0.75% charge cap.

Table 5: Case study assumptions

Input	Assumption
Notional private capital investment	£100
Cash flow timing	Interim distribution in year 2 and final distribution or exit in year 5 (calculated to equal the IRR)
Private capital share of portfolio	10%
Standard portfolio share	90%
Standard portfolio fee	0.3%
Hurdle rate	8% IRR
Carried interest rate	20% of realised profits above the hurdle
Charge cap	0.75%
Time horizon	5 years

Table 6 shows that carried interest increases with the strength of realised returns. At a 10% gross IRR, carried interest is modest and the blended fee remains below the charge cap. At a 15% gross IRR, carried interest is higher, but the blended fee remains just below the cap. At a 20% gross IRR, carried interest increases to £13.82 on a £100 investment. This pushes the blended fee to 0.97%, above the 0.75% charge cap.

Table 6: Illustrative 5-year scenario results

	10% IRR over 5 years	15% IRR over 5 years	20% IRR over 5 years
Gross IRR	10.0%	15.0%	20.0%
Year 2 DIST	£60.00	£65.00	£70.00
Year 5 DIST (before carry paid)	£81.19	£102.28	£127.87
Carry paid to manager	£1.97	£7.45	£13.82
Net IRR to investors	9.6%	13.8%	18.0%
Fee as % of final gross AUM	1.4%	4.5%	7.0%
Private capital share	10%	10%	10%
Illustrative portfolio fee	0.3%	0.3%	0.3%
Blended fee	0.40%	0.72%	0.97%
Below 0.75% charge cap?	Yes	Yes	No

The example illustrates that strong investment performance can itself create charge cap compliance risk. Schemes may be reluctant to increase private equity allocations if there is uncertainty about whether successful investments could create charge cap risk. That uncertainty may be more relevant where schemes have more concentrated exposure to private assets with higher upside, or where a specific fund or vintage performs materially better than the aggregate portfolio.

Drivers of harm – consumer protection

35. As investment in private markets increases, several risks could lead to consumer harm:

- **Information asymmetries** – Private markets are generally less transparent than public markets, with model-based valuations and limited information on underlying investments. This can make it more difficult for pension schemes to assess investment quality, value for money and fees, while savers have limited ability to monitor or challenge these decisions.
- **Agency problems** – Savers delegate investment decisions to providers, trustees, consultants and asset managers, whose incentives may not always align with savers' interests. This can create a risk that fees or investment decisions benefit intermediaries more than scheme members.
- **Behavioural biases and governance constraints** – Private market investments can be difficult to assess and monitor, increasing reliance on historical performance and manager reputation. Combined with limitations in expertise, governance or resources, this may increase the risk of poor manager selection, inadequate due diligence and ineffective oversight.

The harm

36. We expect 2 main types of harm to arise from an inability of pension schemes to invest in private markets:

- **Access** – Savers do not gain exposure to private assets from their default schemes, potentially leading to pension pots growing less than they otherwise would, and lower diversification.
- **Wider economic impacts** – Private markets offer a source of direct capital to UK corporates and start-ups which can in turn support productivity and economic growth in the real economy. Investment discouraged by the charge cap may lead to lower economic growth.

37. Investing more in private markets also carries risks to savers that is necessary to mitigate. This may generate harm to savers through:

- **Fair value** – Increased exposure to private markets increases risks that savers pay excess fees without corresponding increases in performance.

Access

38. As discussed in the *Performance section* of the Technical Annex to this CBA, private markets have performed strongly over the last twenty years, generating pooled average returns of 12.4% since 2006, compared to 8% in the FTSE All-Share. However, future returns are not guaranteed to match past returns.

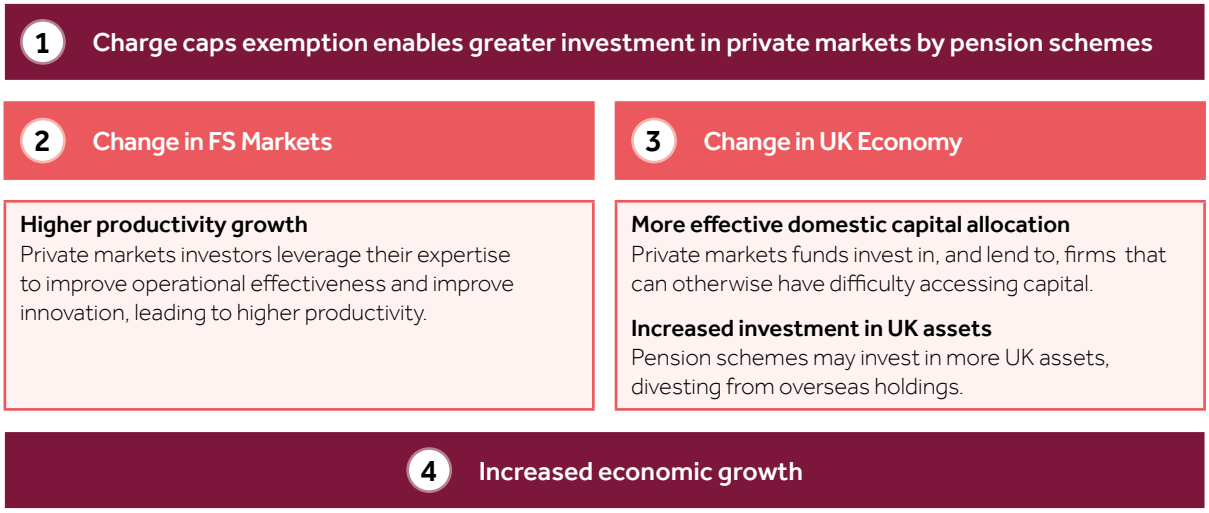
39. DWP estimated that, net of fees, an illustrative portfolio with a 15% allocation to private markets, comprising 10% infrastructure and 5% private equity, could deliver up to a 2% larger pension pot for members. We have conducted a similar, but different, analysis detailed in the Technical Annex to this CBA. Our modelling estimates a median increase in net returns of 2.1% over 10 years, following an increase in asset allocation to private markets. Further results of this modelling are available in the Benefits section.

Wider economic impacts

40. The proposals could support UK growth through 2 channels, as shown in Figure 2. First, UK pension schemes currently hold 85% of their asset allocation in non-UK investments, so reallocating some investment to UK private markets could increase productive investment and support GDP growth. The scale of this effect would depend on how much additional investment is directed to UK assets and whether it finances new productive activity rather than displacing other UK investment.

41. Second, pension schemes are also key institutional investors in the UK financial system. They are a valuable source of "patient capital", investing over long time horizons and able to withstand fluctuations in valuations and delayed returns. This makes them well-suited to investing in private markets where capital is locked away during the investment period and returns can be smoothed.

Figure 2: How our proposals can generate economic growth



42. The academic literature is inconclusive on this second point but the conditions for growth are:

- **Operations and governance** – Private equity firms may be able to impose better governance procedures and operational efficiencies to improve growth (see Jensen, 1997; McGrath and Nerkar, 2023; Verbouw et al., 2025; Lavery, Tsoukalas and Wilson, 2024).
- **Relaxing financial constraints** – Private capital firms can enable smaller and scalable firms to gain access to capital that they would otherwise not receive. These firms may have higher economic growth potential as they are able to generate innovation and spillovers (see The Productivity Institute, 2024; Ioannou, Sonea and Wójcik, 2026; Silva Ruiz et al., 2026).
- **Innovation** – Innovation is a central driver of long-run economic growth, primarily through its effects on productivity and knowledge accumulation. Private markets offer opportunities to support innovation, particularly through venture capital (see Hall and Helmers, 2024; Pantea and Tkacik, 2025).
- **Spillovers** – Spillovers are indirect effects of an activity, such as private market investment, that has impacts on other parties not directly involved. Private markets may generate spillovers through increasing competition and diffusing technology (see Aldatmaz and Brown, 2019).

Fair value

43. Without adequate information and governance, firms and scheme governance bodies may struggle to assess whether private market investments represent fair value, increasing the risk of overpaying for private market exposure or paying fees that are not justified by performance.

Options

44. We considered the following 3 options:

- Option 1: Do nothing.
- Option 2: Exempt performance fees from the charge cap and rely solely on the Consumer Duty for consumer protection.
- Option 3: Exempt performance fees from the charge cap and include bespoke consumer protection rules and guidance (recommended).

45. A summary of our options assessment and the success factors we considered is set out in Table 7.

Table 7: Options analysis

	Success factors		
Overall assessment	Policy effectiveness and regulatory alignment	Saver outcomes and consumer protection	Risk tolerance
Option 1: Do nothing			
Not preferred. Restricts investment in private markets, leading to lower exposure for savers and associated returns, and potentially lower growth.	**Does not meet.** The charge cap would continue to constrain investment using performance fees. Differences between the contract-based and trust-based regimes would remain.	**Partly meets.** The cap would protect savers from higher charges but could restrict access to investments with the potential to improve diversification and long-term net returns.	**Within tolerance, but overly cautious.** It limits private market risks but retains the risk of insufficient risk-taking where suitable investments could improve saver outcomes.
Option 2: Exempt performance fees and rely solely on the Consumer Duty			
Not preferred. This option meets the policy objective at lower direct cost, but does not manage the specific consumer risks created by exempting performance fees sufficiently.	**Meets.** The exemption would remove a potential regulatory barrier and support closer alignment between pension regimes.	**Partly meets.** Savers could access a wider investment set, but general requirements would not address all risks specific to performance fees.	**Potentially outside tolerance.** It accepts greater fee, valuation and manager-selection risk without targeted safeguards and could undermine the charge cap's original purpose of protecting savers from high or unfair charges.
Option 3: Exempt performance fees from the charge cap and include bespoke consumer protection rules and guidance (recommended)			
Recommended. This option gives the best balance between widening the investment opportunity set and maintaining consumer protection. It meets the policy objective while managing the specific risks created by the exemption.	**Meets.** The exemption would remove a potential regulatory barrier and support closer alignment between pension regimes.	**Best meets.** Targeted requirements would support access while addressing genuine performance, transparency, saver fairness, valuation and due diligence, which also motivated the introduction of the charge cap.	**Within tolerance.** Bespoke safeguards reduce additional fee, valuation, liquidity and manager-selection risks, although they cannot remove investment risk.

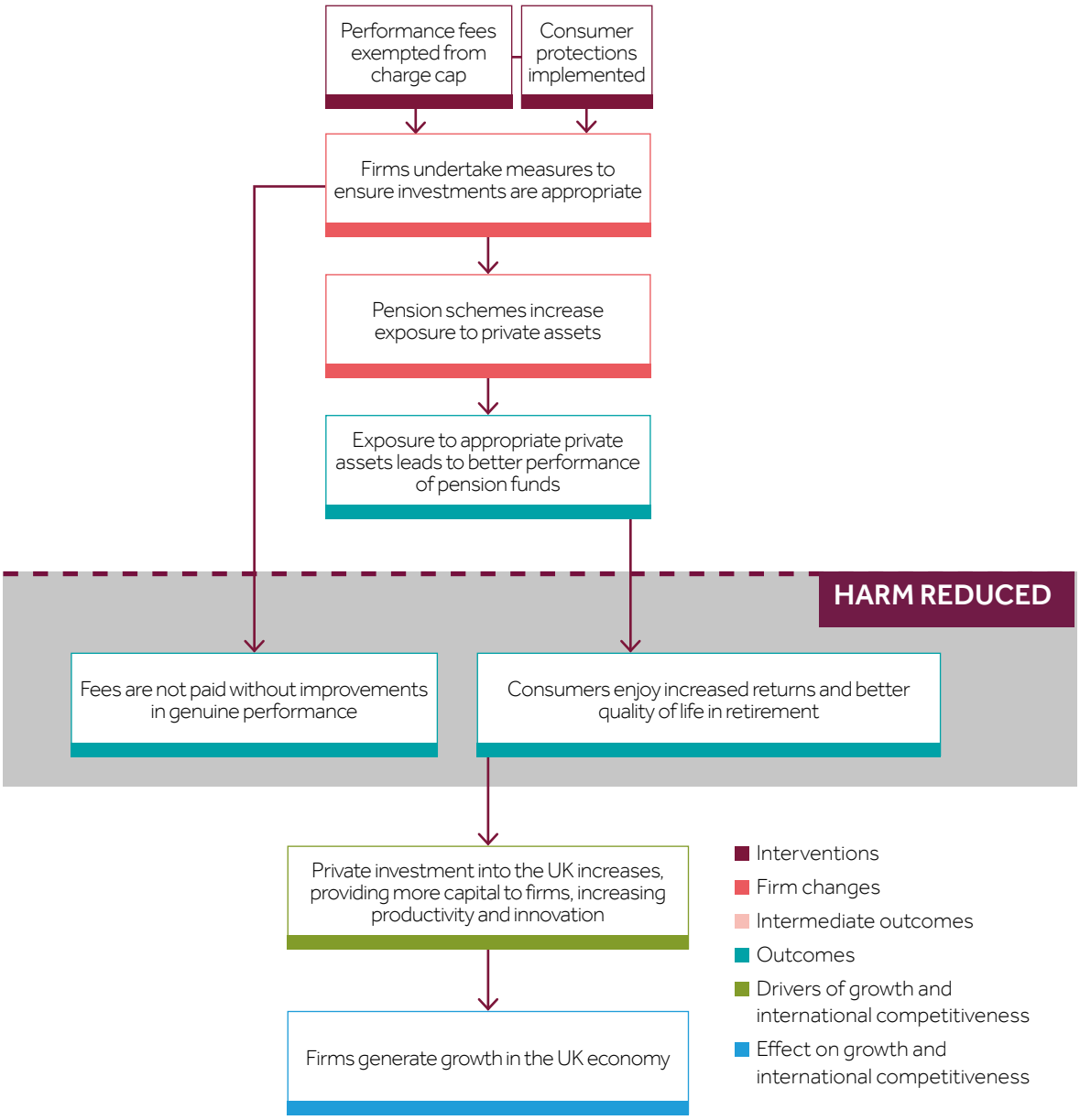
Our proposed intervention

46. We are proposing to allow flexibility by exempting higher performance fees from the 0.75% charge cap where they can demonstrably lead to better performance, to enable greater investment in private markets.

47. We are aware of the risks involved in private market investment and so are introducing consumer protections alongside the exemption. For greater detail on our proposed intervention, please refer to Chapters 2-7 of the consultation paper.

48. The causal chain below sets out how we expect our proposals to deliver benefits to savers and the wider economy.

Figure 3: The causal chain



Baseline

49. The baseline for this CBA is that performance fees are not exempted from the charge cap and contract-based pension schemes are still limited in their ability to invest in private markets.

50. We assume that in this case, asset allocation would remain unchanged from the current levels. Over our ten-year appraisal period, we estimate that the overall AUA of the default funds of MHA signatories would rise from £206bn to between £414bn and £652bn, with a median of £520bn – a median growth of 162%, including contributions of approximately £117bn over 10 years.

51. We note concurrent work ongoing in the pensions space, particularly the Value for Money Framework, which may lead to greater investment in private markets, even absent our proposals. However, we do not consider these in our baseline as we expect the charge cap could still limit schemes' investment. In addition, we cannot say with certainty how firms will increase their allocation and to what level. For simplicity, we therefore maintain the assumption that asset allocation remains in line with current levels.

52. New fund structures, such as long-term asset funds (LTAFs), may also support firms in allocating greater proportions of their portfolio to private markets. There may also be further innovations in fund structures that support this allocation, but again we cannot say for certain how these will come about.

Firms affected

53. There are 2 main groups of firms we expect to be impacted by our proposals: contract-based workplace pension schemes and private markets asset managers.

Contract-based workplace pension schemes

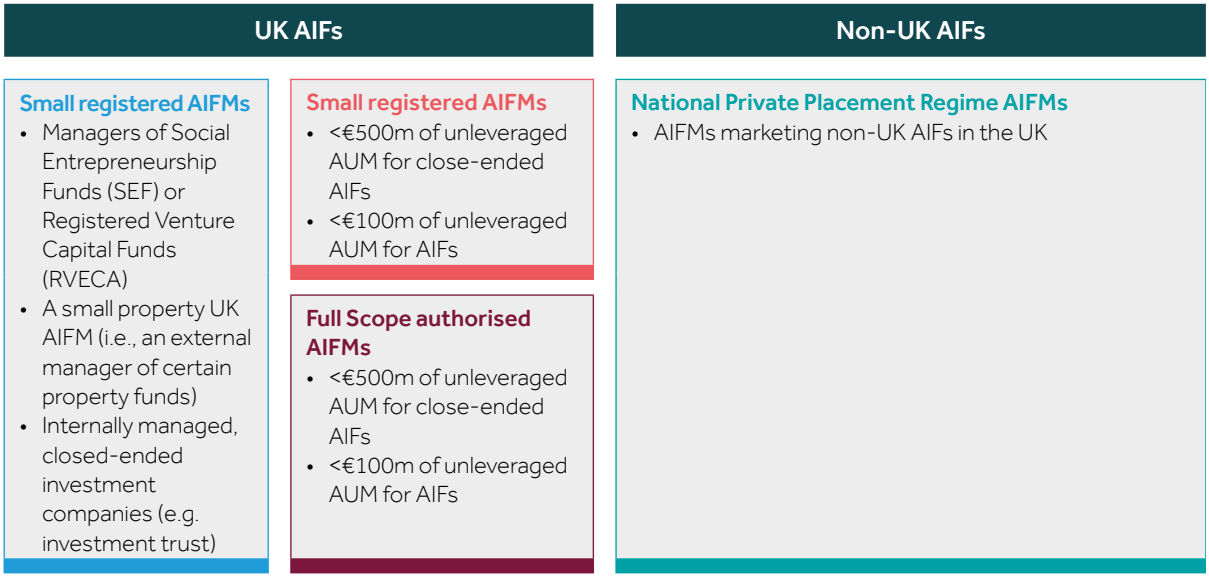
54. Our proposals will affect all 21 of the contract-based workplace pension providers we regulate, should they choose to invest their default funds into private markets. However, we expect that the most substantial impact will be on the 8 signatories of the MHA. As these firms have made clear that they will increase their exposure to private markets following the exemption of performance fees from the charge cap, we estimate costs and benefits to these firms.

55. For non-MHA signatories, our proposals are permissive. Firms may choose to increase their asset allocation to private markets, but they are under no obligation to do so. Therefore, they will only incur these costs should they believe it is net beneficial for themselves or their members.

Private markets asset managers

56. Our proposals may also impact managers of the private assets in which pension schemes invest. We use AIFMD data to identify the number of UK-based alternative investment managers that may be affected. There are 3 categories of Alternative Investment Fund Managers (AIFMs), set out below in Figure 4.

Figure 4: AIFMD regulatory categories



Source: CP26/28: The UK AIFM Regime

57. Firms are categorised based on their size and use of leverage. We would primarily expect pension schemes to access private market investments through products managed by larger full-scope AIFMs, given the scale of pension scheme assets and the level of governance, reporting and operational capability likely to be required. Table 8 below shows the number of AIFMs within each category.

Table 8: AIFMs by regulatory category

Regulatory Regime	AIFMD Category	Number of AIFMs
UK AIFs	Full Scope AIFM	702
	Small Authorised AIFM	475
	Small Registered AIFM	145
Non-UK AIFs	National Private Placement Regime AIFM	3,152

Source: CP26/28: The UK AIFM Regime; FCA regulatory data

Key assumptions

58. This section sets out the key assumptions underpinning our analysis. Where our analysis is highly sensitive to these assumptions, we provide sensitivity analysis in the *Risks and sensitivity analysis* section of this CBA.

Investible assets

59. We assume that there are sufficient investible assets to meet the demand of pension schemes commensurate with their fiduciary duty and the Consumer Duty. In order to deliver their MHA commitments, pension schemes will mobilise large amounts of capital that requires suitable investments.

60. There is evidence of both substantial capital awaiting deployment and unmet demand for finance. Evidence reviewed by the Bank of England suggests that high-growth firms continue to face financing gaps, particularly where they lack tangible assets or require later-stage equity, while demand-side factors can also limit their use of external finance. Grant Thornton estimates that private equity firms have around £190bn of committed but uninvested capital, commonly called "dry powder", available to deploy in 2026. Firms we engaged with also generally considered there to be sufficient opportunities across private markets, although capacity could be more limited in narrower segments such as UK venture capital. We therefore assume that the market can absorb increased investment, provided allocations are diversified across suitable private market assets.

61. This does not guarantee sufficient high-quality assets at valuations that deliver adequate net returns, particularly if increased demand leads to oversubscription. Successful deployment may depend on borrowers, asset managers and financing structures adapting to connect pension capital with suitable investment opportunities.

62. The literature suggests that private market returns can be sensitive to competition, financing conditions and capital inflows. Ljungqvist and Richardson (2003) find that competition between private equity funds affects the rate at which funds invest capital, while Axelson et al. (2013) find that favourable credit conditions are associated with higher buyout prices and that greater leverage is associated with lower fund performance. There is also evidence that performance varies across market conditions: Harris, Jenkinson and Kaplan (2014) find that average US venture capital funds outperformed public equities in the 1990s but underperformed them in the 2000s, while Tommar, Darolles and Jurczenko (2024) find private equity performance varies materially by investment strategy and geography, with higher capital inflows associated with lower subsequent returns in European private equity.

The performance fee charge cap exemption enables private market investment

63. The charge cap has been identified by pension schemes as a key barrier to investment in private markets. However, they also note other barriers, beyond the availability of suitable investible assets noted above, that may also need to be addressed. The MHA also lists the Value for Money Framework, which was consulted on earlier this year, and other policy initiatives.

64. We assume for the purposes of the CBA that the exemption of performance fees is the most substantive regulatory enabler of investment in private markets and that other enablers are implemented successfully. This is because we believe this intervention has the greatest direct link to private market investment and to avoid overlapping analysis or double counting of benefits.

65. We also assume that the increased burden of our consumer protection proposals does not prevent private market funds from offering investments to pension schemes. There is a risk that asset managers may choose not to implement sufficiently robust processes to meet our expectations on consumer protections and so be unable to offer investments to pension schemes.

Fees are the same before and after performance fees are exempted from the charge cap

66. Pension schemes may be able to use their scale to negotiate better fee structures with private asset managers. In our standard model we assume that the standard 2/20 structure with an 8% hurdle persists, but we have seen evidence that some schemes have been able to negotiate better terms. We present sensitivity analysis with a 1/10 structure to understand how this impacts our results in the *Risks and sensitivity analysis* section.

Other assumptions

67. We also make the following standard assumptions in our analysis of the impacts of our proposals:

- Costs and benefits are analysed over a 10-year appraisal period following implementation.
- The present value of costs and benefits is estimated by applying a 3.5% discount rate, in alignment with HM Treasury's Green Book. HM Treasury has announced that the discount rate will change to 3.0% following a formal review. As no implementation date had been announced at the time of writing, we continue to apply the current 3.5% rate.
- Firms comply with our proposed rules (where relevant).

68. We considered a longer appraisal period for this policy, as time horizons are extended in pension investments. However, given the uncertainty over future returns, even within the 10-year appraisal period, we chose not to extend the appraisal period.

Benefits

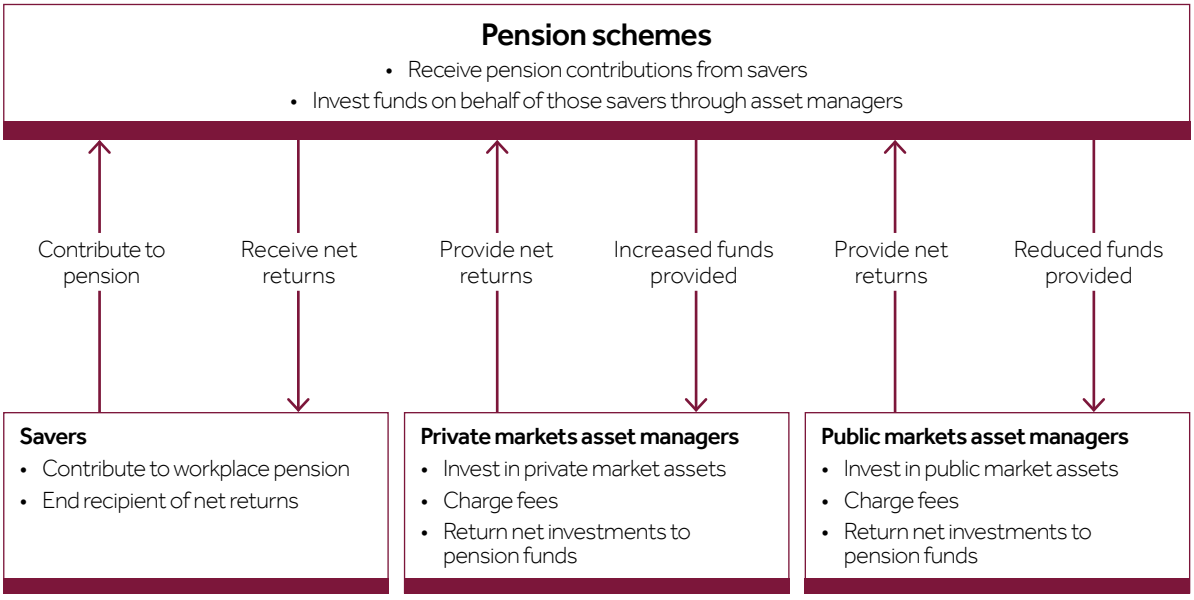
69. This section sets out the benefits we expect to accrue to savers and firms as a result of our proposals. Overall, we estimate total benefits of **£10.9bn to £18.0bn, central £14.3bn (PV)**. These benefits include better saver outcomes from increased investment in private markets and additional fee revenue for asset managers. We include the corresponding fees paid by savers in our estimate of monetised costs.

Increased investment in private assets

70. Our main analysis centres on expected returns from increased private market investment and subsequent changes in fee flows. This section summarises the findings of this modelling.

71. Figure 5 below sets out the flow of funds between savers, pension schemes, and asset managers, and outlines their key roles.

Figure 5: Flow of funds within pension system



72. We have undertaken a Monte Carlo simulation to estimate the change in performance and fees associated with an increased investment in private assets. This uses capital market assumptions published by asset managers to forecast future returns by simulating 10,000 outcomes based on probabilities implied by volatility using repeated random sampling.

73. There will be 3 main impacts of increased investment in private assets, which we present together in this section:

- An increase in the net size of savers' pension pots (after fees are taken out), driven by changes in performance (Direct benefit to savers) – **£7.0bn to £9.9bn, central £8.8bn (PV)**.

- An increase in the amount of fees earned by private asset managers (Direct benefit to private asset managers and direct cost to savers) – **£1.3bn to £6.5bn, central £3.1bn (PV)**.
- An increase in the amount of fees earned by public asset managers (Direct benefit to public asset managers and direct cost to savers) – **£2.6bn to £1.6bn, central £2.3bn (PV)**[2].

74. Forecasting investment returns is inherently uncertain, and modelling is highly sensitive to economic conditions, assumptions and allocations. We rely on publicly available CMAs which are forward-looking estimates of how different asset classes will perform over the long term; they take into consideration underlying macro trends, past performance, and institutional views to provide expected returns for portfolio management. An in-depth discussion of our modelling approach and assumptions can be found in Chapter 2 of the Technical Annex to this CBA.

Breakeven analysis

75. The estimated benefits depend on the assumption that exempting specified performance fees enables the modelled increase in private market investment. We cannot determine precisely how much of any future change in firms' allocations will be attributable directly to the proposal rather than other policy. We therefore calculate how much of the estimated net benefit to savers would need to be attributable to the exemption for that benefit to cover the separate policy implementation costs.

76. We estimate central monetised net benefits to savers of £8.824bn and monetised policy implementation costs of £40m in PV terms over the 10-year appraisal period. The net benefit to savers is measured after deducting the additional fees paid to asset managers. On this basis:

Breakeven share of modelled benefits = £40m ÷ £8.824bn = 0.45%

77. This means that approximately 0.45% of the central estimated net benefit to savers would need to be attributable to the exemption, or realised in practice, to cover the estimated monetised policy implementation costs. We consider it reasonable to expect that more than 0.45% of the modelled benefit will be attributable to the exemption, given that industry engagement identified exempting performance fees from the charge cap as a critical enabler of increased private market investment. However, this calculation does not account for unquantified costs, consumer harms or wider economic benefits and should be considered alongside the qualitative assessment of risks and uncertainty.

2 Gross public asset manager fees increase at higher percentiles in both the baseline and intervention scenarios because overall asset values are higher. The reported benefit here is the difference between the 2 scenarios. This difference narrows at higher percentiles because baseline public manager fees are already high where the baseline assumes lower private market investment, while stronger private market returns under the intervention mean a larger share of the incremental fee benefit accrues to private asset managers.

78. Our consumer protection proposals aim to reduce the risk that savers experience poorer outcomes if the expected benefits from increased investment in private assets do not materialise, while increasing the likelihood that the benefits modelled in our analysis are realised in practice. They also preserve the original purpose of the charge cap by limiting the exemption to performance fees that are commercially necessary and reflect genuine additional value for members.

Results – Change in performance

79. Overall, through the approach explained above and in more detail in the technical annex, we estimate that the increase in private markets investment will lead to a median increase in net returns to savers over the 10-year appraisal period of 2.1%. These findings are broadly in line with the DWP's estimated increase in returns of 2% to a saver's portfolio.

80. Table 9 shows the modelled net portfolio value of pension assets at the end of the 10-year appraisal period, after deducting all management and performance fees. In nominal terms, the baseline produces a median final portfolio value of £520bn, with an interquartile range (IQR) of £414bn to £652bn, reflecting the uncertainty of long-horizon pension investing. The intervention scenario produces a median final portfolio value of £531bn, around £11bn higher than the baseline and equivalent to a 2.1% increase. This suggests that increased exposure to private markets could improve aggregate saver outcomes after fees, although the scale of benefit depends on market performance, asset allocation and fee assumptions.

Table 9: Nominal final net portfolio values across baseline and intervention scenarios, £bn

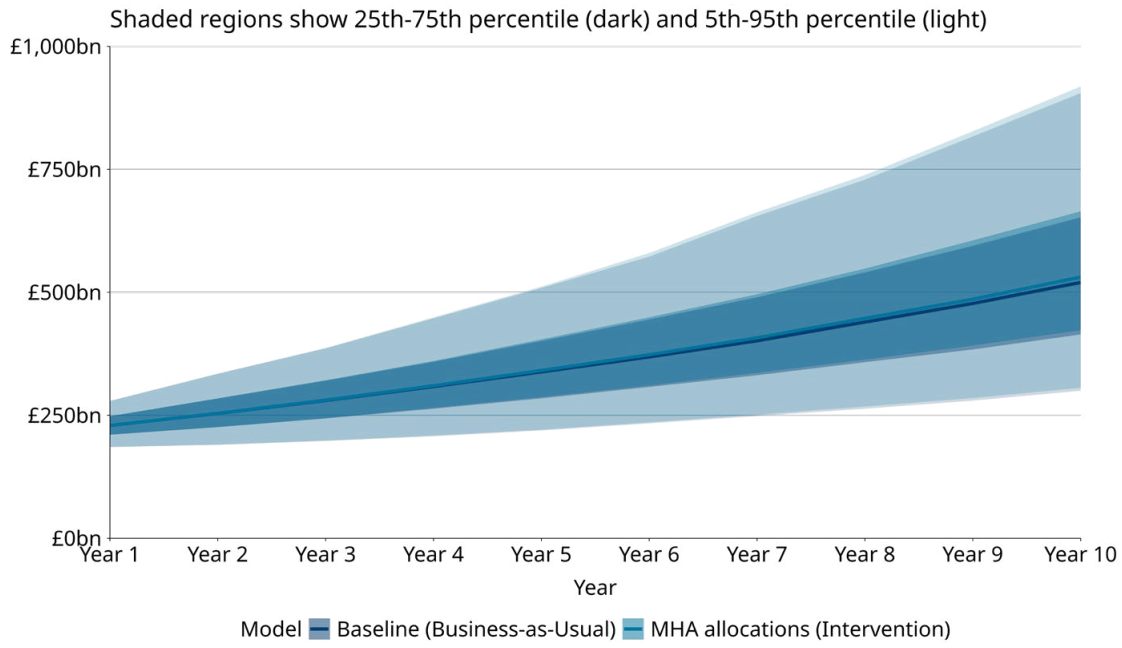
Scenario	25th percentile	Median	75th percentile
Baseline	£414.3	£520.1	£652.4
Intervention	£422.9	£530.9	£664.7
% change in value by scenario	+2.1%	+2.1%	+1.9%

81. The fan chart below (Figure 6) shows the range of portfolio values generated by the Monte Carlo simulation, net of fees. The intervention median consistently exceeds the baseline median from year 3 onward (2029), reflecting the accumulated benefit of higher private equity exposure despite increased fee drag.

82. Overlap in the distributions reflects residual investment risk. Although the intervention increases the median outcome, stochastic variation in returns means that some intervention scenarios produce lower outcomes than the baseline. Approximately 16.1% of intervention simulations fall below the baseline, indicating that while the intervention improves outcomes on average, individual realised outcomes may still be less favourable in some simulations. This is an expected consequence of modelling uncertain investment returns as a higher expected outcome does not imply that every possible outcome under the intervention exceeds the baseline.

83. We expected that the increased volatility associated with private markets would lead to outcomes which provided lower overall gains. However, the increased diversification dominates this effect. As private markets remain a relatively small part of the portfolio, they provide diversification when the larger public equity portfolio experiences underperformance.

Figure 6: Net portfolio value fan chart



Portfolio value trajectories (net of fees) showing median, interquartile range (25th-75th percentile), and 90% confidence interval (5th-95th percentile) for both models.

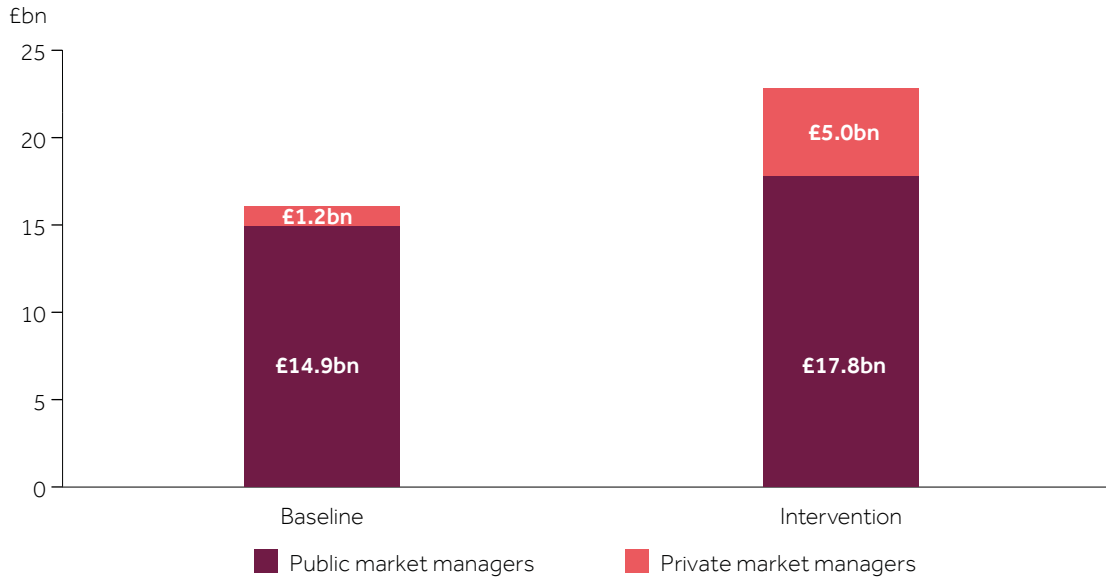
Source: FCA analysis

Results – Change in fees

84. The change in portfolio allocation will lead to a change in fees earned by public and private asset managers, which are passed straight through to savers. Over the 10-year appraisal period, the increase in private markets investment generates approximately £11bn (£8.8bn PV) in additional net returns to savers, and an additional £6.7bn (£5.5bn PV) in higher fees to both public and private asset managers in our median simulations.

85. Private asset managers account for most of the increase in fees. Over the 10-year appraisal period in the median simulations, private asset manager fee revenue increases from £1.2bn (£1.0bn PV) under the baseline scenario to £5.0bn (£4.1bn PV) under the intervention scenario, an increase of £3.8bn (£3.1bn PV). Public asset managers also experience an increase over the appraisal period, with fee revenue rising from £14.9bn (£12.5bn PV) to £17.8bn (£14.8bn PV), an increase of £2.9bn (£2.3bn PV). This counterintuitive result is driven by our assumption around portfolio rebalancing: as higher private market returns are redistributed to public markets to retain target asset allocations, the overall pot they are charging fees on increases. We test this assumption in the *Risks and sensitivity analysis* section.

Figure 7: Breakdown of nominal private and public manager fee revenue



Source: FCA analysis

86. Our modelling deducts additional management and performance fees from gross portfolio returns when estimating the net benefits to savers. These fees are received as revenue by asset managers. To the extent that the additional revenue represents profit or economic rent, it is a transfer between savers and asset managers and does not affect aggregate social welfare. To the extent that it funds additional labour, systems, sourcing, due diligence, monitoring, valuation or other inputs, it represents an incremental resource cost. The additional fees are likely to include both payment for services that use economic resources and a transfer reflecting profit or economic rent. We do not have enough evidence to estimate this split reliably, so we include the full amount as a cost to savers and a corresponding benefit to asset managers. The separate £40m estimate of policy costs covers familiarisation and additional governance and due-diligence activities undertaken by pension providers (see *Costs* section).

Wider economic benefits

87. *The Wider economic benefits* subsection within *The harm* section of this CBA earlier set out how increased investment in private assets can lead to economic growth. We have estimated that over a 10-year period, the proposals could unlock up to a further £3.6bn of productive investment in the UK. This reflects a shift in allocations from overseas public equity towards UK private markets, rather than a transfer from public to private investments within UK markets. We assume there could be a marginal benefit from increased investment in private assets, particularly where this supports innovative firms to grow. As the additional allocation is assumed to be funded partly through reduced holdings of overseas assets, this could also lead to a direct increase in investment in UK companies.

88. We have estimated the wider impact of this increased investment using the National Institute Global Econometric Model (NiGEM). NiGEM is a global macroeconomic model used to simulate economic scenarios and assess their wider economic impacts. It comprises detailed country models built around the national income identity and includes equations covering domestic demand, trade volumes, prices, labour markets, the government sector, and asset holdings. The model also contains a well-specified supply side. Since the model's equations are interlinked, a change in one area can have implications across the wider economy. For example, changes in labour demand can affect wages, inflation, output, and ultimately interest rates.

89. The key characteristics of the model are:

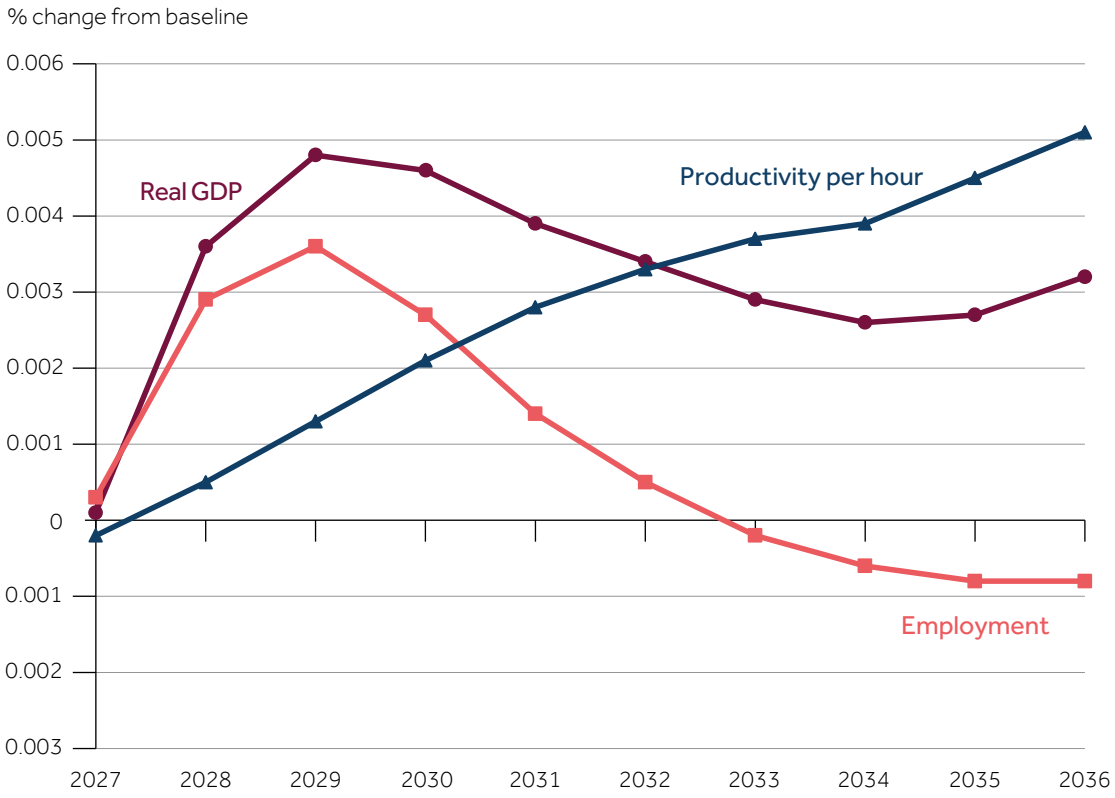
- **NiGEM is a demand-driven model.** In the short run, output is primarily determined by aggregate demand. In the long run, output converges to a level determined by an underlying production function that represents the supply side of the economy.
- **NiGEM is a global general equilibrium model.** The model places considerable emphasis on economic interdependence across countries through international trade, financial markets, and cross-border asset holdings. At the global level, trade flows balance endogenously within each period.
- **Agents form rational expectations consistent with the model.** Households, firms, and financial market participants are assumed to form expectations about future inflation, interest rates, exchange rates, and other key variables in a manner that is consistent with the model's structure.

90. Here, we increase the amount of investment in the UK, assuming that any reallocation of foreign assets to UK private investments will lead to a 1:1 increase in investment in the UK.

91. Over our appraisal period, we estimate an annual increase in UK non-financial corporate investment, rising from around £114m in 2027 to around £453m in 2036 (£3.6bn in nominal terms over the 10-year appraisal period). We use this annual investment path as an input to NiGEM and assume this additional investment is invested in new capital. Figure 8 shows that the model initially estimates increases in real GDP and employment relative to the baseline. The graph shows an initial increase in GDP and employment, peaking in 2029. Thereafter, the employment effect gradually declines and becomes slightly negative towards the end of the appraisal period, while GDP remains above the baseline throughout.

92. GDP remains consistently above employment throughout the appraisal period, leading to a sustained increase in productivity per hour.

Figure 8: Real GDP, employment and productivity per hour



Source: FCA analysis using NiGEM

93. Across the modelled period, the annual GDP effects are equivalent to a cumulative increase of around £1.1bn relative to the baseline, measured in 2026 prices. The annual aggregate real GDP effect varies over time, peaking in 2029 at around £158m. The estimated impact is less than the £3.6bn input of investment, as NiGEM is a general equilibrium model that captures economy-wide adjustment effects. Higher investment increases demand, placing upward pressure on prices and interest rates, which moderates the increase in real GDP coming from higher investment. From 2033 to 2036, employment in the UK falls below the baseline but the overall impact on employment remains positive over the appraisal period.

94. Given the long-term and illiquid nature of private investments, a substantial amount of the benefits is unlikely to be realised within the appraisal period. Extending the NiGEM analysis to 2050, while assuming a similar level of investment, suggests that cumulative benefits could reach £6.5bn (in 2026 prices).

Costs

Costs to firms

95. Firms may incur costs associated with our proposals around consumer protection where they choose to invest more in private assets. We think that these will not be substantial for firms that have signed the MHA, as many operate trust-based schemes and are familiar with DWP guidance.

Pension schemes

Familiarisation costs and gap analysis

96. We expect all 21 firms will need to read our consultation paper and rules to understand the implications for them, regardless of whether they choose to increase their allocation to private markets. We use our standardised cost model (SCM, see Appendix 1 of 'How we analyse the costs and benefits of our policies – 2024' for more information) to estimate how much it will cost firms for their compliance and legal staff to familiarise themselves with our publications.

97. Compliance and legal staff at these firms will have to read the papers we publish. We have estimated this will be 100 pages of consultation paper and annexes, and 80 pages of legal text (we will update this in the policy statement if the final length is significantly different). We estimate the following costs:

Table 10: Familiarisation and gap analysis costs

Firm size	Cost per firm	Total cost
Small	£1,450	£2,900
Medium	£7,240	£65,200
Large	£23,260	£232,600
Total	£14,330	£301,000

Updating charge cap calculations and governance

98. Firms may face additional costs in updating their procedures in determining which costs are included in, or excluded from, the charge cap. These changes may generate one-off systems, governance and assurance costs. The cost of these changes will depend on firms' current systems, product structures and operating models. We have not quantified this cost because we do not have sufficient evidence on the changes each firm would need to make. We therefore treat it as an additional unquantified cost to firms.

Consumer protections

99. Firms may need to implement new procedures to comply with our proposals to ensure consumer protection. These are focused on 2 areas: first, replicating and improving DWP's statutory guidance; and second, introducing new rules to ensure private asset managers have proper valuation practices in place.

Alignment with DWP's approach to performance fees

100. DWP introduced statutory guidance in January 2023 alongside its exemption of performance fees. We are proposing to replicate, and in some cases expand, this guidance within our handbook.

101. We expect that pension schemes that also operate trust-based schemes will largely have already incorporated this guidance into their processes and so do not estimate additional costs for MHA signatories. For firms that did not sign up to the MHA, we do not assume an immediate increase in allocation to private markets, so expect minimal costs.

Governance and due diligence of valuation practices

102. Firms should ensure that the private funds they are investing in have robust procedures in place for their valuation processes. We expect firms to undertake these governance checks using appropriate internal expertise, supported by external advice where needed. Firms may use third-party specialists or investment consultants to inform their assessment, but they remain responsible for the governance and oversight of valuation practices.

103. To estimate these potential costs, we assume that firms may need to develop in-house teams to undertake the governance checks. We assume that this could be completed by a team of 2-3 analysts working under a senior manager. We consider "Actuarial" the closest proxy to an appropriate analyst in the SCM.

Table 11: Annual costs of governance and due diligence

Employee	Annual salary incl. overheads	Number of employees	Cost per firm
Actuarial	£135,209	3	£405,628
Senior manager	£166,153	1	£166,153
Total		4	£571,781

Source: Standardised Cost Model

104. Over ten years, this implies a total cost to MHA firms of £39.4m (NPV). We consider this an upper estimate as it is likely that firms will already have some capability to undertake these activities.

Investment capability

105. Firms are likely to differ in their existing capability to invest in private markets and, therefore, in the costs they would face from using the exemption. Some providers already have the scale, GP relationships and investment processes needed to identify, assess and manage private market investments. Others may need to develop these capabilities or use external advisers and investment consultants.

106. However, our proposals are permissive. Firms can choose whether to use the exemption and increase their private market allocations. We generally expect firms to do so only where they consider that the expected benefits to savers justify the additional investment, governance and implementation costs. This should limit the costs incurred, although there remains uncertainty about their size and distribution across firms.

Private asset managers

107. Not all private asset managers' existing valuation processes may meet the level of scrutiny expected by pension providers investing on behalf of default pension scheme savers. Private asset managers that want to attract investment from pension schemes may therefore need to improve how they evidence, govern and explain their valuation practices. This is not a direct cost imposed by our proposals, as asset managers would choose to make these changes where they consider the commercial benefits of attracting pension scheme investment outweigh the implementation costs. In CP26/28, we proposed applying valuation rules to all AIFMs to ensure they meet baseline standards for reliable, objective and impartial valuations, helping to protect investors' interests.

Costs to savers (consumers)

108. We do not think there will be costs to savers beyond the increase in fees passed through to them as discussed earlier. We estimate this could be between £3.9bn and £8.1bn, with a central estimate of £5.5bn in PV terms. Savers pay these fees to private and public asset managers for investment-management services. We include them as costs to savers and corresponding benefits to asset managers in our summary tables, so the payment and receipt offset in the NPV. There may be some situations where private market underperformance leads to worse retirement outcomes. We consider these scenarios in the *Risks and sensitivity analysis* section below.

Risks and sensitivity analysis

109. As noted throughout this CBA, there is a great deal of uncertainty in forecasting asset returns and we are reliant on several assumptions. In this section, we conduct further analysis to test these assumptions and understand the impact should they not hold. It also assesses the balance of potential benefits and risks under the proposed intervention in the *Rebalancing risk* subsection.

Rebalancing risk

110. As set out in the options analysis, the preferred option widens the investable opportunity set while using targeted safeguards to manage the additional fee, valuation, liquidity and manager-selection risks. Greater access to private markets could improve diversification and long-term net saver outcomes where investments generate sufficient returns after fees. The proposal also responds to a potential position of insufficient risk-taking, where the hard charge cap may reduce schemes' willingness to access private markets even where doing so could be in savers' long-term interests. However, there is a risk that increased private market exposure could result in significant losses, particularly where valuations fall, assets are illiquid, managers underperform or fees are not justified by returns.

111. Exempting specified performance fees may expose savers to many risks that are set out in Chapters 2-6 of the consultation paper. We consider that the proposal can remain within a tolerable range of risk because the proposal is permissive rather than mandatory, so firms would only use the exemption where they consider it consistent with improving net saver outcomes and can meet the proposed protections. The exemption would apply only to qualifying fees and would sit alongside consumer protections on commercial necessity, genuine performance, transparency, fairness between savers, valuation governance and due diligence.

112. The proposal would bring the contract-based regime closer to the approach already available to trust-based DC schemes since 2023, reducing differences where providers operate or pool assets across both regimes. It is also consistent with the government-supported MHA and wider productive finance agenda. In our December 2025 letter to the Prime Minister, we committed to consult on the pension charge cap so that higher performance fees do not discourage potentially beneficial investment.

113. Pension schemes may be particularly well placed to hold some illiquid assets because contributions and liabilities generally extend over long periods. This may allow them to capture an illiquidity premium where it is sufficient to compensate savers for reduced liquidity and the associated fees and risks. Maintaining the existing constraint could therefore create an opportunity cost if schemes cannot access suitable investments that offer higher expected net returns over the long term.

114. The exemption may also have second-order effects on economic growth. If firms use the exemption to increase allocations to UK private markets, this could increase the supply of long-term capital available to UK firms and projects. Where that capital finances additional business investment and innovation, it may support productivity and, in turn, output and economic growth. The scale of any effect will depend on how firms use the exemption, how much additional investment is directed towards UK assets, the availability of suitable investments, and whether pension investment represents genuinely additional capital rather than a reallocation from other UK assets. See our *Benefits* section for our macroeconomic modelling of potential impacts on GDP, employment and productivity. The effect could be limited if investment is directed overseas, displaces existing UK financing or mainly changes ownership of existing assets.

115. The balance could move beyond a 'tolerable range' if increased exposure to private assets amplifies existing risks in these markets, fees outweigh additional returns, manager selection is poor, schemes make unsuitable or illiquid allocations, or valuations and governance do not support reliable decisions. This risk would be greater if harms were concentrated on savers least able to benefit from the long-term investment horizon. Our modelling estimates higher aggregate net returns under its assumptions, but private market outperformance is not guaranteed and some schemes or savers could be worse off. On balance, we consider the additional risk tolerable because firms should use the exemption only where they expect it to improve net saver outcomes and can meet the proposed consumer protections. These protections preserve the original purpose of the charge cap by limiting the exemption to performance fees that are commercially necessary and reflect genuine additional value for savers.

Returns

116. Our central results use the median and interquartile range of the Monte Carlo simulations. Table 12 shows results at the 5th (downside) and 95th (upside) percentiles. Under these scenarios, net nominal returns in the intervention range from £306bn to £918bn. We discuss the implications of these results further in the Technical Annex to this CBA.

Table 12: Final net portfolio values (year 10) for 5th and 95th percentile outcomes, nominal £bn

	5th percentile	95th percentile
Baseline	£299.9	£905.0
Intervention	£306.0	£918.4
% change in value by scenario	2.0%	1.5%

Source: FCA analysis

117. While the benefits set out above depend on several modelling assumptions, the proposed consumer protections are intended to reduce the risk of harm and improve the likelihood that higher private market allocations benefit savers.

Certainty-equivalent analysis

118. In our main modelling results, risk is incorporated directly through a DCC-EGARCH Monte Carlo framework that models stochastic returns, changing volatility, evolving correlations and fat-tailed outcomes, which has been reviewed by an external academic (see the Technical Annex to this CBA). The reported distribution of portfolio outcomes therefore reflects market risk. This simulation framework explicitly models the distribution of risky outcomes, but the resulting estimates do not themselves adjust for consumers' risk aversion or the utility associated with those outcomes.

119. Following feedback from our CBA panel on this point, we have estimated certainty-equivalent (CE) outcomes using a constant relative risk aversion (CRRA) utility function to assess whether the intervention's estimated benefits remain after accounting for consumer risk aversion. Details of the approach are provided in the Technical Annex to this CBA.

120. Under this approach, the certainty-equivalent wealth ratio increases from 2.25 under the baseline scenario to 2.30 under the intervention scenario. This implies a risk-adjusted welfare gain of approximately 2.1% over the ten-year appraisal period, equivalent to an increase in certainty-equivalent annual returns from 8.45% to 8.68%.

121. The similarity between the certainty-equivalent and the headline unadjusted results reflects the point that the intervention improves outcomes across much of the simulated distribution, rather than simply increasing exposure to higher-risk, higher-return outcomes. While the intervention modestly increases outcome dispersion, portfolio values are higher at all reported percentiles of the simulated distribution. As a result, the additional expected returns are not materially offset by increased downside risk when viewed through the lens of a utility-based framework.

Fee heterogeneity/fund manager competition

122. Fees for private market investments vary between asset managers, investment strategies and individual mandates. Our firm engagement suggests that larger pension providers may be able to use their scale to negotiate lower or bespoke fee terms. These terms may not be available to all providers or across all strategies so our modelling uses simplifying fee assumptions because we cannot observe the full range of negotiated arrangements.

123. Higher pension scheme demand could allow established managers to increase fees or restrict access to their funds. Conversely, competition between managers and the negotiating power of large providers could reduce fees. Poor manager selection could reduce net returns and affect savers who remain in default funds for long periods. These potential impacts create uncertainty around our estimates of additional fees. Actual fees will depend on the balance between increased demand for private market investments, competition between managers and providers' ability to negotiate terms.

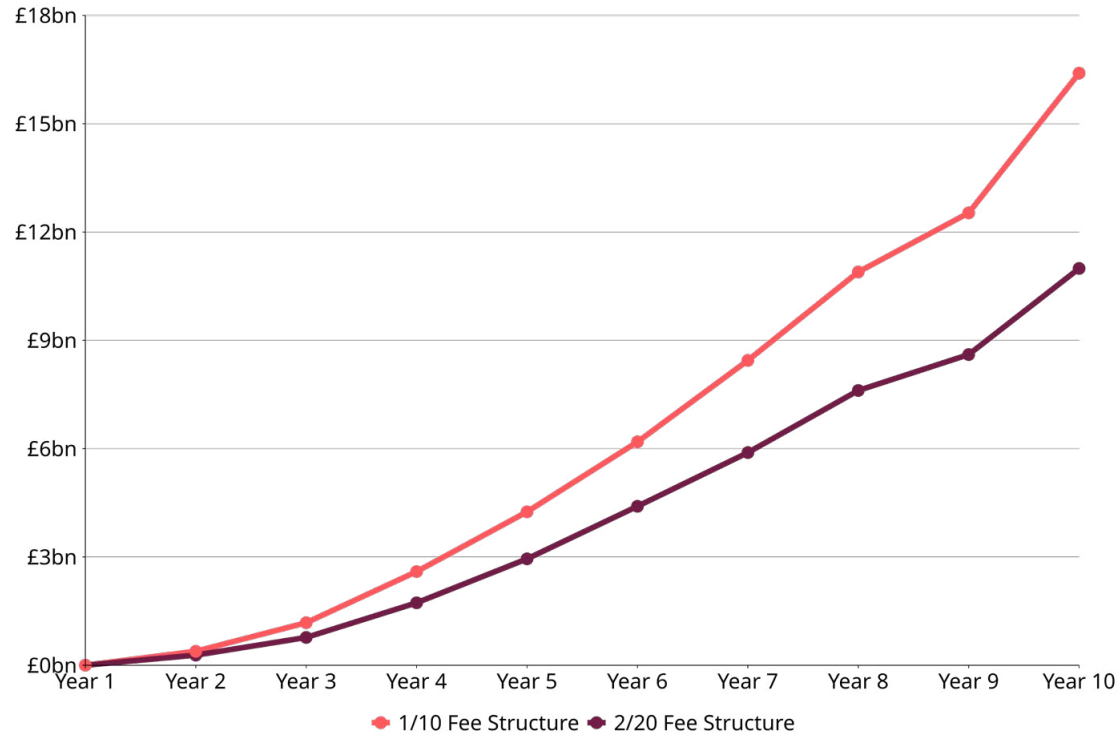
Modelling of 1/10 fee structure for private equity and private credit instead of 2/20 fee structure

124. Our central analysis assumes that private equity and private credit investments use a 2/20 fee structure: a 2% annual management fee and a 20% performance fee on returns above an 8% hurdle rate. In practice, fees vary across private market strategies, managers and mandates. Discussions with firms suggest that large pension providers can use their scale, expected investment volumes and ability to consolidate assets to negotiate lower or bespoke terms. Some arrangements may not include a performance fee, although performance fees remain an established feature of private market investment and can help align incentives between managers and investors.

125. We therefore tested a 1/10 fee structure: a 1% annual management fee and a 10% performance fee on returns above an 8% hurdle rate. This is consistent with the alternative fee assumption tested in DWP analysis. DWP considered that 1/10 may be a reasonable assumption for large DC schemes because greater scale may allow schemes to negotiate more competitive fees. DWP also tested 2/20 to show the effect of higher fees.

126. Lower fees increase net portfolio values, with the difference becoming larger as private market allocations increase and the effect compounds. By 2036, the intervention portfolio is £16.4bn higher than the baseline under the 1/10 structure, compared with £10.8bn under the central 2/20 assumption (in net terms). This sensitivity changes the scale of the benefit but not the qualitative conclusion that higher private market allocations could improve aggregate net saver outcomes under the modelled assumptions.

Figure 9: Increases in portfolio value (net), relative to the baseline, for 1/10 and 2/20 fee structures



Source: FCA analysis

Modelling the removal of the annual portfolio rebalancing assumption

127. Our main models assume that portfolios are rebalanced annually to maintain their target asset allocations. Pension schemes commonly use rebalancing to manage investment exposures and keep portfolios aligned with their strategic asset allocations. However, private market investments are typically less liquid than public market assets and capital may be committed or invested for extended periods. Schemes may therefore have less ability to buy or sell private market assets at the frequency or in the amounts required to restore target allocations each year. We test the removal of annual rebalancing to reflect this possibility.

128. In the model, stronger returns from private market investments increase the overall portfolio value. Annual rebalancing then reallocates part of this increase to public market assets to restore the target allocation. This mechanism affects our fee estimates. Reallocating gains from private to public market assets increases the asset base on which public market managers charge fees. The increase in fee revenue for public market managers in our central analysis is therefore partly driven by the annual rebalancing assumption, rather than by a direct increase in the target allocation to public markets. The sensitivity test removes annual rebalancing to assess whether the estimated portfolio outcomes and changes in fee revenue depend materially on these transfers.

129. Without annual rebalancing, the intervention (with a final value of £533.8bn) produces a 2.95% increase in net portfolio value relative to the baseline (£518.5bn) by 2036. Relative to the annual rebalancing scenario, fee revenue for managers increases by £200m and £600m in the baseline and intervention, respectively. Overall, these changes are not material in the context of overall portfolio value or manager revenues.

Poor manager selection

130. As noted above, private market returns are highly dependent on manager selection. Across the market, these differences are likely to be less pronounced through diversification, but there is a risk that scheme-level or saver-level returns are significantly lower.

131. We include an illustrative case study to show how an individual saver could be worse off if part of their pension pot is allocated to a poorly performing private market fund. It shows how individual outcomes can vary and highlights the importance of governance and manager selection.

Case study: illustrative example of how poor manager selection can leave savers worse off

To inform this illustrative case study, we use evidence from the BVCA Performance Measurement Survey 2024. The survey reports a wide distribution of returns across private capital funds. For funds from 2005 vintages onwards, the median since inception IRR is 9.5%, while outcomes at the lower end of the distribution can be negative. The 90th percentile (worst performers) shows returns of -3.6%.

We model 2 scenarios to reflect this dispersion. In a poor-manager scenario, the 10% private market allocation earns -3.6%. In a median-comparator scenario, the same allocation earns 9.5%. We hold the remaining 90% of the portfolio constant in both scenarios to isolate the impact of the private market allocation on outcomes.

We model a saver with the following characteristics:

- A £25,000 DC pension pot in 2027. This starting value represents the midpoint of the £20,000 to under £30,000 band observed in the *FCA Financial Lives 2024* pensions findings, and we use it as an illustrative proxy for a typical saver in accumulation.
- Annual salary is based on median UK earnings of £32,890 in 2025 from the ONS Annual Survey of Hours and Earnings 2025. We uplift this to 2027 using OBR Economic and fiscal outlook (March 2026) nominal earnings growth assumptions of 4.59% in 2025/26 and 3.17% in 2026/27. From 2027 onwards, we assume earnings growth based on the same OBR projections.
- Total pension contributions of 8% of salary each year, consistent with evidence from the DWP Analysis of Automatic Enrolment saving levels.
- 10% of the pension pot is allocated to private markets as an internal illustrative assumption used to align the case study with the broader policy context.

Under these assumptions, the difference between the 2 scenarios increases steadily over time:

- After 10 years, the pension pot is around 5–6% lower, equivalent to around £3,300 less in savings, in the poor manager scenario.
- After 30 years, the gap widens to around 11–12%, equivalent to around £21,000 less in savings.

This shows that even a relatively small allocation, such as 10% in private markets, can have a material impact on long-term outcomes if performance is persistently weak.

The wide variation in manager performance means that the benefits of the policy will depend on schemes selecting suitable investments and managers that deliver sufficient returns after fees. While diversification across managers and investments may reduce this risk at market level, poor manager selection could reduce or reverse the expected increase in pension pot values for individual schemes and savers. It could therefore also reduce the aggregate benefits of the policy if poor performance is sufficiently widespread. This reinforces the importance of our proposed requirements on governance, due diligence, valuation practices and value for money.

This is illustrative sensitivity analysis and not a forecast. It simplifies several factors:

- IRR measures are used as proxies and are not directly equivalent to annual returns.
- Outcomes will depend on contributions, charges, asset allocation, age and sequencing of returns.

Market-cycle and structural uncertainty

132. Our estimates may not fully capture a structural change in private market conditions. Much of the sector's growth and historical performance occurred during a prolonged period of low interest rates. Higher financing and refinancing costs, together with slower exits, could weaken portfolio company performance and delay the recognition of losses, particularly where loans are extended or valuations adjust slowly. If current CMAs do not fully reflect these changes, our modelled benefits could be overstated.

Monitoring and evaluation

133. The proposal is intended to give pension schemes greater flexibility to invest in private markets where specified performance fees apply, while maintaining appropriate consumer protections. If the proposal has its intended effect, we expect to see:

- Use of the charge cap exemption.
- Increased private market allocations.
- Improved net outcomes for savers, where investments perform as expected.

134. The Value for Money Framework, due to be implemented from 2028, will improve the availability and comparability of data on asset allocation, costs and charges, and investment performance. This will allow us to monitor these outcomes over time.

135. We will also consider the impact of our proposals within the wider context of the government's evaluation of pensions reforms. The DWP has published a Pension Schemes Act 2026 Evaluation Strategy, which sets out its approach to assessing the effects of pensions reforms over time. Where appropriate, we will consider evidence generated through that evaluation programme alongside data collected through our regulatory framework to understand the impact of these proposals on asset allocation, fees and saver outcomes.

Consultation with the FCA Cost Benefit Analysis Panel

136. We have consulted the CBA Panel in the preparation of this CBA in line with the requirements of s138IA(2)(a) FSMA. A summary of the CBA Panel's main recommendations and the measures we took in response is provided in Table 13. In addition, we made changes based on wider feedback from the CBA Panel on specific sections of the CBA. The CBA Panel publishes a summary of their feedback on their website.

Table 13: Summary of CBA Panel's main recommendations and our response

Main recommendations	Our response
Strengthen the rationale for intervention and explain why an exemption is now justified. The CBA does not articulate sufficiently why the original 0.75% charge cap rationale no longer holds or provide compelling evidence to justify the proposed deregulation. The analysis would benefit from summarising the original rationale for the cap as analysed in the CBA accompanying CP14/24 and PS15/05; setting out the evidence on how it has operated in practice; and explaining whether market developments, growth considerations, or regulatory misalignment have altered the cost-benefit balance. Alignment with trust-based schemes is frequently referenced but not clearly evidenced as a source of harm. An analysis more closely integrated with the arguments of the CP itself – which identifies potential conflicts and risks more robustly – would improve confidence that the intervention addresses a genuine market problem.	In response to the Panel's recommendation, we have added a new section on the history of the charge cap and developments since 2015 in the 'Rationale for intervention'. This explains the original rationale for the cap and the market failures it was intended to address, drawing on the 2014 DWP impact assessment and our associated CBA in CP14/24. We have also added evidence on why the investment landscape has now changed. The revised analysis makes clear that the original consumer protection rationale for the cap continues to apply, while considering whether specified performance fees now create a constraint that was not assessed when the cap was introduced.

Main recommendations	Our response
Strengthen evidence for the central benefits assumptions and analyse downside risks more fully. The return modelling is extensive and represents a significant analytical strength. However, many estimated benefits rely on the assumption that the charge cap is the primary obstacle to greater investment in private markets. Evidence supporting this appears limited. Other barriers, including governance requirements, liquidity constraints, valuation challenges and operational complexity, receive comparatively little attention. The analysis also has relatively little discussion of downside risks. The analysis assumes that firms will use the exemption only where it benefits consumers, yet supporting evidence is limited. Greater consideration should be given to how performance fees affect incentives, whether consumers in default arrangements have the implied risk tolerance, and how higher expected returns compare with increased volatility.	We acknowledge that the estimated benefits depend on the assumption that the exemption enables the modelled increase in private market investment. The charge cap may not be the primary obstacle to achieving the MHA investment allocations. We assume for modelling purposes that the exemption enables the modelled increase in investment, as the MHA identifies alignment on the scope of the charge cap as a "critical enabler" of signatories' commitments. However, we cannot determine precisely how much of any future change in allocations will be due to this proposal. Given this uncertainty, we have added breakeven analysis showing how much of the modelled benefits would need to be attributable to the exemption for monetised benefits to equal monetised costs. On downside risks and risk tolerance, we consider potential downside risks through qualitative assessments and an illustrative case study in the *Risks and sensitivity analysis section*. We have also added analysis of risk tolerance using certainty-equivalent returns derived from a CRRA utility function. This estimates a risk-adjusted welfare gain of around 2.1% over 10 years, similar to the headline result. We present this as a sensitivity given its dependence on assumptions about consumer risk preferences.
Present a more systematic post-implementation evaluation plan. Just as the proposals to relax the existing cap would benefit from a more systematic comparison of realised outcomes against original ex ante estimates of costs and benefits, so a more systematic plan for the monitoring and evaluation framework for its future impact would be beneficial. Such a plan could for example include systematic monitoring of investment behaviour and fees, clear success metrics, and a defined post-implementation review period.	We have expanded the monitoring and evaluation section to set out the expected outcomes and explain how data on asset allocation, costs and charges, and investment performance collected through the Value for Money Framework will allow us to monitor them. We have not committed to a separate review period because its timing and scope will depend on implementation of the Value for Money Framework, data availability and when changes in long-term investment outcomes become observable.

Question 22: Do you have any comments on our cost benefit analysis? Please provide supporting evidence, including quantified estimates where possible.

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by section 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. This Annex includes our assessment of the equality and diversity implications of these proposals.

5. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

6. In addition, in preparing the proposals in this consultation we have had regard to the recommendations made by the Treasury in the November 2024 remit letter, which was issued pursuant to section 1JA FSMA. In particular, we consider that our proposals support the government's growth agenda while advancing our operational objectives, as explained further in this Annex.

The FCA's objectives and regulatory principles: Compatibility statement

7. In relation to the FCA' strategic objective, the proposals in this consultation aim to ensure that the relevant markets function well because they set out to align the trust-based and contract-based side of the market creating efficiencies for scheme providers and to facilitate the opportunity for greater investment in private assets managed by investment firms. For the purposes of the FCA's strategic objective, "relevant markets" are defined by section 1F FSMA and include the markets for regulated financial services.

8. We consider the proposals set out in this consultation to advance the FCA's operational objectives of:

- Securing an appropriate degree of protection for consumers; and
- Promoting effective competition in the interests of consumers.

9. The proposals advance our consumer protection because they are designed with a view to securing an appropriate degree of protection for consumers where qualifying performance fees are not subject to the charge cap, and to ensure providers act to deliver good outcomes for scheme members. Some of these protections are extended to scheme investments where performance fees are not exempt from the cap.

10. We consider these proposals advance our competition objectives because they improve how competition works in this market in the interests of consumers. The proposals aim to align the trust-based and contract-based sides of the pension market with regards to exempting performance fees from the charge cap. Since 2023, when DWP exempted performance fees from the charge cap on the trust-based side, trust-based scheme providers have been able to allocate larger investments to private assets without the compliance risk of surpassing the cap, whilst contract-based providers have not. These proposals seek to rectify this, and will help to create a level playing field for better competition.

11. We consider these proposals comply with the FCA's secondary objective in advancing international competitiveness and growth. As set out in the CBA, increased investment in private assets could support economic growth in the UK. Our illustrative modelling suggests this could lead to a cumulative £1.1bn increase in GDP relative to the baseline over the 10-year appraisal period, measured in 2026 prices.

12. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s 3B FSMA.

The need to use our resources in the most efficient and economic way

13. The proposals set out in this consultation are consistent with an efficient and economic use of our resource. We have mirrored the existing trust-based regime and relied on existing Handbook obligations where possible and appropriate. We have built on existing work where possible and have engaged extensively with stakeholders in developing our proposals to incorporate expertise and feedback throughout the process.

14. Consulting on our proposals provides greater certainty to industry and gives firms investors and other stakeholders a clear opportunity to comment on the future shape of the regime. This will help us test whether the proposed rules are workable in practice before any new framework for performance fees is finalised.

The principle that a burden or restriction should be proportionate to the benefits

15. These proposals are permissive so firms would only use the exemption where they consider it consistent with acting to deliver good outcomes for members and can meet the proposed protections. Where firms make use of exempting performance fees from cap, the proposals are designed to substantially mirror the trust-based regime already in place. Where the proposals do go further, we think any additional burden is offset by additional protections in the market. Overall, as set out in the CBA, we are satisfied that the likely benefits of these proposals outweigh and justify the likely costs.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

16. In developing these proposals, we have had regard to our duties under these requirements. The outcome of our consideration is set out at paragraph 38 of this Annex.

The general principle that consumers should take responsibility for their decisions

17. Our proposals do not inhibit consumers' ability to access a range of products, nor do they seek to remove from consumers the need to take responsibility for their own decisions in relation to use of regulated and unregulated products and services. In considering consequential amendments to pre-existing costs and charges disclosure requirements, we have considered the information needs of scheme members in the context of possible increased allocation of scheme assets to private market investments.

The responsibilities of senior management in relation to compliance with requirements imposed under FSMA, especially where they relate to consumers

18. It will be the responsibility of relevant Senior Managers to ensure that their firms comply with the rule changes that we are proposing, if made. Senior Managers must have regard to their responsibilities under the Senior Managers and Certification Regime.

The desirability of exercising our functions in a way that recognises the differences in the nature of – and objectives of – businesses carried on by different persons including mutual societies and other kinds of business organisation

19. We do not consider that our proposals are inconsistent with this principle.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information to advance our operational and secondary objectives

20. We do not consider that our proposals are inconsistent with this principle.

The principle that we should exercise of our functions as transparently as possible

21. We have acted transparently in developing these proposals. The FCA committed to consulting on exempting performance fees from the charge cap in the FCA's Letter to Prime Minister updating on our approach to growth. The consultation was also referred to in the FCA's Regulatory Initiatives Grid. Additionally, we have had bilateral engagement with firms and industry groups representing the main affected sectors. We have consulted with DWP throughout the development of these proposals.

22. This consultation sets out our proposed approach, draft rules and guidance, and questions for feedback, so stakeholders can engage with us on our proposed charge cap exemption regime.

23. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA). We do not consider this relevant to our proposals.

Further specified matters to which the FCA must have regard

24. The FCA is required by section 137FA FSMA to make rules requiring the disclosure and publication of information about some or all of the transaction costs and other administration charges imposed on scheme members.

25. In determining what to include in such rules, the FCA must have regard to relevant regulations about the disclosure and publication of such costs and charges and must also consult the Department of Work and Pensions (DWP) and HM Treasury before it publishes draft rules.

26. In developing consequential amendments to pre-existing costs and charges disclosure and publication rules made in accordance with section 137FA FSMA, we have had regard to relevant regulations and have consulted DWP and HM Treasury prior to the publication of our draft rules.

Expected effect on mutual societies

27. The FCA does not expect the proposals in this paper to impact mutual societies.

Compatibility with the duty to promote effective competition in the interests of consumers.

28. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.

29. We want to promote a competitive marketplace in which schemes can invest in a broad range of funds and assets for the benefit of scheme members. We have detailed our consideration of our other operational objectives earlier in this Annex.

Compatibility with the requirement to detail engagement with statutory panels

30. Section 1RB FSMA requires the FCA to set out information about any engagement with the statutory panels of the FCA, the PRA or the PSR – though we can exclude information that it would in the FCA's opinion be contrary to the public interest to include.

31. We sent papers to the Listing Authority Advisory Panel, Financial Services Consumer Panel, Practitioners Panel, Markets Practitioner Panel and Smaller Business Practitioners Panel. The panels generally welcomed the workstream. The Consumer Panel was concerned that pension schemes may lose money from higher risk investments in private assets. The Smaller Business Practitioner Panel broadly supported the direction of travel, recognising the inclusion of private assets as a natural evolution for pension investment strategies. However, members emphasised that such assets introduce distinct risks, and highlighted the importance of clearly communicating both the potential upside and downside to consumers. We have carefully considered feedback from the Panels and have designed our proposals to include appropriate consumer protections, including those which we believe will drive value for scheme members.

Equality and diversity

32. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

33. We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.

34. Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti discrimination legislation applies).

35. We welcome your comments on the assessment above. We will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

The Consumer Duty

36. The Duty sets higher and clearer standards of consumer protection and is at the heart of the FCA's shift to outcomes-based regulation. It requires firms to focus on delivering good customer outcomes. Under the Duty, we expect firms to be able to identify, monitor, evidence through data and stand behind the outcomes their customers experience. The Duty also sets requirements for firms in key areas including product and service governance and distribution, price and value, communications, and support. More information is available here.

37. These proposals interact with the Duty. In setting out consumer protections, where appropriate we rely on the Duty, alongside other outcomes-based rules in our Handbook. Our proposals include guidance provisions, adopted from DWP guidance for the trust-based regime, which explain how firms can comply with their obligations under the Duty in the context of investments which attract performance-based fees.

Environmental, social & governance considerations

38. In developing this CP, we have considered the environmental, social and governance (ESG) implications of our proposals and our duty under ss.1B(5)(a) and 3B(1)(c) of FSMA to have regard to the need to contribute towards the Secretary of State achieving compliance with the net-zero emissions target under s.1 of the Climate Change Act 2008 and environmental targets under s.5 of the Environment Act 2021. We consider our proposals to be of relevance to our 'have regards' insofar as they remove a barrier to investment in private markets assets, which could in turn contribute to net zero and environmental targets where such assets have relevant sustainability characteristics. The FCA will keep this under review during the consultation period and when considering any final rules.

Legislative and Regulatory Reform Act 2006 (LRRA)

39. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We consider that the proposals are proportionate and promote our operational objectives of consumer protection and effective competition, as well as our strategic objective to ensure that markets function well. We consider that the proposals will result in an appropriate level of consumer protection without creating undue burdens on the industry or adversely affecting competition.

40. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider the proposals are proportionate to the potential harm to consumer or risks to our statutory objectives identified.

Annex 4

Measuring success

1. These proposals are intended to remove barriers to private asset investment by pension schemes where performance fees are paid, while offering appropriate protections for scheme members. The objective is to simplify arrangements and reduce compliance costs where providers offer both contractual and trust-based schemes.

2. If the proposal has its intended effect, we expect to see:

   - Use of the charge cap exemption.
   - Increased private market allocations.
   - Improved net outcomes for savers, where investments perform as expected.

3. The Value for Money Framework, due to be implemented from 2028, will allow performance to be reviewed over time, and will be collected on an ongoing basis. The Framework is designed to allow direct comparison between the performance of workplace DC pension schemes through data collection, evaluation and publication.

4. We will also consider the impact of our proposals within the wider context of the government's evaluation of pensions reforms. The DWP has published a Pension Schemes Act 2026 Evaluation Strategy, which sets out its approach to assessing the effects of pensions reforms over time. Where appropriate, we will consider evidence generated through that evaluation programme alongside data collected through our regulatory framework to understand the impact of these proposals on asset allocation, fees and member outcomes.

Annex 5

Abbreviations used in this paper

Abbreviation	Description
AIFMD	Alternative Investment Fund Managers Directive
AIFMs	Alternative Investment Fund Managers
AUA	Assets under administration
AUM	Assets under management
CBA	Cost Benefit Analysis
CCI	Consumer Composite Investments
COBS	Conduct of Business sourcebook
COLL	Collective Investment Schemes Sourcebook
DC	Defined contribution
DWP	Department for Work and Pensions
FSMA	Financial Services and Markets Act 2000
FUND	Investment Funds Sourcebook
GDP	Gross domestic product
IGC	Independent Governance Committees
IOSCO	International Organisation of Securities Commissions
IQR	Interquartile range
IRR	Internal rate of return
LRRA	Legislative and Regulatory Reform Act 2006
LTAF	Long-term asset fund
MHA	Mansion House Accord
NiGEM	National Institute Global Econometric Model
NPV	Net present value

Abbreviation	Description
PV	Present value
SCM	Standardised cost model
TPR	The Pensions Regulator
VFM	Value for Money

Appendix 1

Draft Handbook text

Conduct of Business (Pension Schemes: Performance-Based Fees and Charge Cap) Instrument 202X

Powers exercised

A. The Financial Conduct Authority ('the FCA') makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ('the Act'):

(1) section 137A (The FCA's general rules);

(2) section 137FA (FCA general rules: disclosure of information about pension scheme transaction costs etc);

(3) section 137T (General supplementary powers); and

(4) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument.

Instructions

F. In the Annexes to this instrument, the instructions (indicated by '**Instruction:**') set out the nature of the amendments being made to the legislative text.

Citation

G. This instrument may be cited as the Conduct of Business (Pension Schemes: Performance-Based Fees and Charge Cap) Instrument 202X.

By order of the Board

[*date*]

Annex A

Amendments to the Glossary of definitions

Instruction: In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Instruction: Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

performance-based fee

a fee owed by or on behalf of the *operator* of a *qualifying scheme* in relation to the performance of *investments* held directly or as part of a *collective investment scheme*, including charges in respect of profit-sharing arrangements (such as carried interest).

physical asset

an asset whose value depends on its physical form, including:

(a) land;

(b) buildings and other structures on land or sea;

(c) vehicles, ships, aircraft or rolling stock; and

(d) *commodities*.

qualifying performance-based fee

a *performance-based fee* in relation to which the conditions in *COBS 19.6B.5R* (Condition 1: calculation) and *COBS 19.6B.6R* (Condition 2: pre-agreed terms) are met.

Instruction: Amend the following definition as shown.

administration charge

(1) …

but an *administration charge* does not include any charge made for costs:

(d) incurred directly as a result of buying, selling, lending or borrowing investments; or

(e) incurred solely in providing benefits in respect of the death of such a member of a *qualifying scheme*; or

(f) in complying with a court order, where that order has provided that the *operator* may recover those costs; or

(g) arising from earmarking orders or pension sharing arrangements pursuant to regulations made under section 24 or 41 of the Welfare Reform and Pensions Act 1999.; or

(h) which are *qualifying performance-based fees*; or

(i) solely attributable to holding a *physical asset*, including the costs of managing, maintaining and insuring the asset, and any ground rent, charges, rates, taxes and utilities bills incurred in relation to the asset, but excluding fees for valuing the asset.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

> **Instruction:** In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

COBS 19 Pensions supplementary provisions

…

COBS 19.5 Independent governance committees (IGCs) and publication and disclosure of costs and charges

…

Definitions

COBS 19.5.1A | R

In this section:

…

(7) "*IGC's* remit of review" means the remit of the *IGC* as described in *COBS 19.5.5R(2)*, *COBS 19.5.5R(2A)*, *COBS 19.5.5R(2B)*, *COBS 19.5.5R(2C)*, and, where applicable *COBS 19.5.5R(2D)* and *COBS 19.5.5R(2E)*~~.~~; and

(8) "performance-based fee" means:

(a) in relation to a *qualifying scheme*, a *performance-based fee*; and

(b) in relation to any other *relevant scheme*, a fee owed by or on behalf of the *operator* of the *relevant scheme* in relation to the performance of *investments* held directly or as part of a *collective investment scheme*, including charges in respect of profit-sharing arrangements (such as carried interest).

COBS 19.5.1AA | G

Firms are reminded that references to '*administration charges*' in this section include performance-based fees.

…

Terms of reference for an IGC

COBS 19.5.5 | R

A *firm* must include, as a minimum, the following requirements in its terms of reference for an *IGC*:

…

(2) the *IGC* will assess the ongoing value for money for *relevant policyholders* delivered by a *relevant scheme* particularly, though not exclusively, through assessing the three factors in (a) to (c) below, taking into account the specific points in (d) to (g):

(a) the level of charges and costs, in particular:

(i) *administration charges* and any ~~*transactions costs*~~ *transaction costs* borne by *relevant policyholders*; and

…

…

(2A) the *IGC* will assess the ongoing value for money for pathway investors delivered by a *pathway investment* particularly, though not exclusively, through assessing the three factors in (a) to (c) below, taking into account the specific points in (d) to (g):

(a) the level of charges and costs, in particular:

(i) *administration charges* and any ~~*transactions costs*~~ *transaction costs* borne by pathway investors; and

…

…

…

(6) the Chair of the *IGC* will be responsible for the production of an annual report setting out the following, in sufficient detail, taking into account the information needs of *consumers*:

…

(g) ~~administration charges~~ *administration charges* and ~~transaction costs~~ *transaction costs* information complying with the requirements in *COBS 19.5.16R*;

…

(8) the *IGC* will ensure the publication of ~~administration charges~~ *administration charges* and ~~transaction costs~~ *transaction costs* information complying with the requirements in *COBS 19.5.13R*;

…

Duties of firms in relation to an IGC

COBS 19.5.7 | R

A *firm* must:

…

(9) provide each *relevant scheme's IGC* with ~~administration charges~~ *administration charges* and ~~transaction costs~~ *transaction costs* information, setting out the costs and charges for each default arrangement and each alternative fund option that the member is able to select.

COBS 19.5.8 | G

…

(5) A *firm* should use best endeavours to obtain, and should provide the *IGC* with, information on the costs incurred as a result of managing and investing, and activities in connection with the

managing and investing of, the assets of a *relevant scheme* or which could impact a *pathway investment*, including ~~transaction costs~~ *transaction costs* and performance-based fees. Information about costs and charges more broadly should also be provided, so that the *IGC* can properly assess the value for money of a *relevant scheme* or a *pathway investment* and the funds held within these.

…

Publication and disclosure of costs and charges by IGCs

COBS 19.5.13 | R

The ~~administration charges~~ *administration charges* and ~~transactions costs~~ *transaction costs* information referred to in *COBS 19.5.5R(8)* must, in relation to each *relevant scheme*:

…

(3) include the costs and charges for each default arrangement and each alternative fund option that a member is able to select; ~~and~~

(3A) state the amount of any *qualifying performance-based fees* incurred in relation to each *default arrangement* as a percentage of the average value of the assets held for the purposes of that *default arrangement*; and

(4) include an illustration of the compounding effect of the ~~administration charges~~ *administration charges* and ~~transaction costs~~ *transaction costs*, based on either the assumptions contained in *COBS 13 Annex 2* or those in Version 4.2 of the Actuarial Standard Technical Memorandum (AS TM1) produced by the Financial Reporting Council, for a representative range of fund options that a member is able to select.

…

COBS 19.5.16 | R

The ~~administration charges~~ *administration charges* and ~~transaction costs~~ *transaction costs* information in the *IGC's* annual report referred to in *COBS 19.5.5R(6)(g)* must, in relation to each *relevant scheme*:

…

COBS 19.5.17 | R

The annual communication referred to in *COBS 19.5.5R(9)* must:

(1) include a brief description of the most recent ~~transaction costs and administration charges~~ *administration charges* and *transaction costs* information that has been published in accordance with *COBS 19.5.13R*, and an explanation of how that information is relevant to the *relevant scheme* member; and

…

COBS 19.5.19 | G

(1) The annual communication provided to a *relevant scheme* member may also include:

(a) the particular ~~transaction costs and administration charges~~ *administration charges* and *transaction costs* that have been incurred by that member~~.~~; and

(b) further information about performance-based fees as the *IGC* considers useful to the *relevant scheme* member in understanding the impact of performance-based fees on their accrued rights.

(2) Examples of the further information in (1)(b) include:

(a) details of the assets and funds to which the performance-based fees relate;

(b) narrative explanations to relate investment performance to *relevant scheme* member outcomes;

(c) details of the operation of any hurdle rates and other elements of the fee structure designed to mitigate the effects of short-term fluctuations in investment performance, such as high-water marks, caps and clawback mechanisms;

(d) a timeline of how performance-based fees are measured and paid; and

(e) other contextual information, such as fund sheets and information from previous years.

COBS 19.5.20 | G

In communicating information in compliance with *COBS 19.5.5R(11)*, the *IGC* should ensure, for example, that it is straightforward for a *relevant scheme* member to compare the ~~transaction costs and administration charges~~ *administration charges* and *transaction costs* between fund options that are available for them to select.

> **Instruction:** Insert the following new section, COBS 19.6B, after COBS 19.6A (Restrictions on early exit charges in personal pension schemes and stakeholder pension schemes). All the text is new and is not underlined.

COBS 19.6B Performance-based fees for default arrangements in qualifying schemes

Application

COBS 19.6B.1 | R

This section applies to the *operator* of a *qualifying scheme*.

Interpretation

COBS 19.6B.2 | R

In this section:

(1) 'investment performance' means the performance of managed investments, whether in terms of the capital appreciation of, or income generated by, those investments;

(2) 'managed investment' means an *investment* managed by an investment manager, either directly or as part of a *collective investment scheme*; and

(3) references to a *firm* making an investment include references to an investment being made by or on behalf of a *qualifying scheme*.

Purpose

COBS 19.6B.3 | G

(1) *Qualifying performance-based fees* are not *administration charges* and are therefore not subject to the restrictions and limits on charges in *COBS 19.6.4R* and *COBS 19.6.6R* for *default arrangements* within *qualifying schemes*.

(2) This section:

(a) sets out the conditions under which a *performance-based fee* qualifies as a *qualifying performance-based fee*; and

(b) contains *rules* and *guidance* on *firms'* obligations in relation to *performance-based fees* generally, including a requirement to establish before investing that appropriate valuation policies and procedures are in place where a *performance-based fee* may be incurred.

(3) A *performance-based fee* that is not a *qualifying performance-based fee* will ordinarily remain an *administration charge* and will therefore be subject to the restrictions and limits on *administration charges* in *COBS 19.6.4R* and *COBS 19.6.6R*.

Conditions for qualifying performance-based fees

COBS 19.6B.4 | G

A *performance-based fee* will not be a *qualifying performance-based fee* unless it meets:

(1) the calculation condition in *COBS 19.6B.5R*; and

(2) the pre-agreed terms condition in *COBS 19.6B.6R*.

Condition 1: calculation

COBS 19.6B.5 | R

The first condition is that the *performance-based fee* is calculated only by reference to an increase in investment performance.

Condition 2: pre-agreed terms

COBS 19.6B.6 | R

(1) The second condition is that terms dealing with the matters set out in (2) have been formally agreed by the *firm* before it invests in a managed investment.

(2) The terms referred to in (1) are those that:

(a) set the rate or amount that investment performance must exceed before a *performance-based fee* is due;

(b) set the period of time over which the *performance-based fee* is calculated;

(c) set the point in time at which a *performance-based fee* is to be paid or settled, and the terms of such payment or settlement;

(d) are designed to mitigate the effects of short-term fluctuations in investment performance on the *performance-based fee*; and

(e) oblige the relevant investment manager to provide information relating to the *performance-based fee* on request.

(3) The rate referred to in (2)(a) must be a level of investment performance above a market benchmark or index that:

(a) is relevant to the type of managed investment; and

(b) allows for ready comparison with the actual performance of the managed investment before the *performance-based fee* is due.

(4) The period of time referred to in (2)(b) must be a period between 2 consecutive calculation points during which *performance-based fees* are accrued.

COBS 19.6B.7 | G

(1) For the purposes of *COBS 19.6B.6R(2)(a)* and *COBS 19.6B.6R(3)*, the agreed rate may be, for example:

(a) a variable rate, such as a published financial performance index that varies based on the index's published constituent parts;

(b) a variable rate, consisting of a blend of more than one published financial performance index; or

(c) a compounded rate of interest applied to net investment in a comparable asset from time to time.

(2) For the purposes of *COBS 19.6B.6R(2)(a)*, an agreed amount may be a fixed amount, including a fixed percentage amount.

COBS 19.6B.8 | G

For the purposes of *COBS 19.6B.6R(2)(b)* and *COBS 19.6B.6R(4)*, the agreed calculation period may be, for example:

(1) the time between 2 consecutive valuation points, such as where an investment manager compares net asset value figures at 2 points in time to calculate investment performance;

(2) the time between the drawdown of funds and a distribution or other payment out of the fund; or

(3) a period designed to meet the requirements of investors while having regard to the nature of the managed investments, such as illiquid assets without a readily available quoted price.

COBS 19.6B.9 | G

For the purposes of *COBS 19.6B.6R(2)(c)*, payment may be, but need not be, in cash.

COBS 19.6B.10 | G

Examples of terms envisaged by *COBS 19.6B.6R(2)(d)* include:

(1) terms designed to reduce the risk of investment managers being paid or rewarded:

  (a) for taking excessive risk;

  (b) twice for the same level of investment performance; or

  (c) for investment performance which is unlikely to be sustainable over the medium to long term;

(2) a mechanism under which *performance-based fees* are only payable in respect of new performance gains (for example, those exceeding a high-water mark of gains achieved in the past);

(3) for closed-ended structures, a requirement that *performance-based fees* are payable only once investors have received an amount equal to their invested capital;

(4) a clawback provision under which paid or settled *performance-based fees* may be recovered where subsequent performance falls below a specified threshold or otherwise does not justify those fees;

(5) an arrangement under which *performance-based fees* are held in escrow and released only once the fund has achieved and maintained a specified level of investment performance; and

(6) a contractual cap on the total amount of *performance-based fees* payable.

COBS 19.6B.11 | G

The term in *COBS 19.6B.6R(2)(e)* should require the relevant investment manager to provide at least the following information on request:

(1) the methodologies used to calculate any *performance-based fee*, including the application of any benchmark, hurdle rate, high-water mark, cap, clawback or other adjustment mechanism; and

(2) a breakdown of the fee components comprised in the total costs and charges associated with the managed investment.

COBS 19.6B.12 | R

(1) *Firms* must regularly review the terms agreed in accordance with *COBS 19.6B.6R* and assess the appropriateness of those terms in line with their obligations to *customers* under *FCA rules*, having regard to any relevant changes in circumstances since the investment was made.

(2) If a *firm* concludes that a term referred to in (1) is no longer appropriate, it must seek to agree an appropriate amendment to that term.

COBS 19.6B.13 | G

(1) The requirement in *COBS 19.6B.6R(1)* that terms be agreed before a *firm* invests does not prevent those terms from subsequently being amended in accordance with *COBS 19.6B.12R*.

(2) However, when seeking amendments to terms in accordance with *COBS 19.6B.12R*, *firms* should seek to avoid undermining

the intended purpose of the requirement in *COBS 19.6B.6R(1)* that the terms be agreed before the *firm* invests.

(3) In considering whether proposed amendments are consistent with the requirement referred to in (2), a *firm* should have regard to:

(a) the timing and frequency of amendments, which may indicate that the *firm* did not take sufficient care in agreeing the terms prior to an investment being made; and

(b) the circumstances giving rise to those amendments, including where there are no new circumstances that justify such amendments.

Operator obligations in relation to performance-based fees

COBS 19.6B.14 | G

(1) In determining whether to make an investment where a *performance-based fee* may be incurred, and on a continuing basis following an investment in relation to which *performance-based fees* have been or may be incurred, *firms* are reminded of their obligations under, among others, the following *FCA rules*:

(a) the *client's best interest rule*;

(b) *Principle* 2 (the obligation on a *firm* to conduct its business with due skill, care and diligence);

(c) *Principle 3* (the obligation on a *firm* to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems);

(d) the *Consumer Duty*; and

(e) *SYSC 3* (Systems and controls) and *SYSC 4* (General organisational requirements).

(2) Before making an investment, *firms* should consider:

(a) the level of investment performance that might be achieved for the *qualifying scheme* through similar investments that do not attract *performance-based fees*, or managed investments that attract *performance-based fees* with different term*s*; and

(b) seeking appropriate professional advice on the proposed fee structure, calculation and settlement arrangements and the potential impact on *customer* outcomes.

(3) Before making an investment, and on a continuing basis, *firms* should work with the investment manager to assess and monitor the impact of *performance-based fees* on *customers*, including:

(a) the fair allocation of *performance-based fees* among members, including, for example, utilising the accruals method;

(b) the appropriateness of asset valuation policies and procedures, including valuation frequencies; and

(c) strategies for reconciling any difference between the asset valuation period and the point at which *performance-based fees* fall due.

(4) *Firms* should consider disclosing information relating to *performance-based fees* to *customers* in addition to the information provided pursuant to *COBS 19.5.13R*, having regard to:

(a) the timing of any measurement, accrual or payment periods applicable to the *performance-based fee*; and

(b) whether additional disclosures in relation to the periods referred to in (a) would assist *customers* in understanding the effect of the *performance-based fee*, particularly where *customers* join, leave, or vary their contributions during a scheme year.

Valuation due diligence

COBS 19.6B.15 | R

(1) Before making an investment in relation to which a *performance-based fee* may be incurred, *firms* must establish on reasonable grounds that appropriate policies and procedures are in place for the valuation of the managed investments.

(2) If a *firm* cannot establish that appropriate policies and procedures are in place in accordance with (1), the *firm* must not proceed with making the investment.

COBS 19.6B.16 | G

When assessing whether appropriate valuation policies and procedures are in place under *COBS 19.6B.15R*, *firms* should consider the following factors:

(1) accountability for, and oversight of, valuation decisions;

(2) record-keeping in relation to valuation decisions and the basis on which they are reached;

(3) independence of valuation functions to provide effective challenge and control;

(4) arrangements for identifying, documenting, managing and mitigating conflicts of interest;

(5) consistent application of valuation methodologies, models and assumptions;

(6) scrutiny and oversight of valuation adjustments to ensure that valuations are based on fair value;

(7) arrangements that enable external auditors to perform their functions effectively in relation to the valuation process;

(8) procedures for conducting ad hoc valuations, including criteria for determining when such valuations should be undertaken; and

(9) oversight of any third-party valuation services, including how they manage conflicts of interest.

Record-keeping

COBS 19.6B.17 | G

(1) *SYSC 3* (Systems and controls) and *SYSC 9* (Record-keeping) (as applicable) contain high-level requirements in relation to record-keeping.

(2) *Firms* should ensure that the records they retain are sufficient to enable the *FCA* to monitor their compliance with the requirements in this section, including retaining records of the analysis supporting the conclusion that a *performance-based fee* is a *qualifying performance-based fee*.

Instruction: Amend the following as shown.

COBS 19.8 Disclosure of transaction costs ~~and~~, administration charges and performance-based fees in connection with workplace pension schemes

Interpretation

COBS 19.8.1 | R

In this section:

…

(4) …

(5) 'performance-based fee' means:

(a) in relation to a *qualifying scheme*, a *performance-based fee*; and

(b) in relation to any other *relevant scheme*, a fee owed by or on behalf of the *operator*, trustee or manager of the scheme in relation to the performance of *investments* held directly or as part of a *collective investment scheme*,

including charges in respect of profit-sharing arrangements (such as carried interest).

COBS 19.8.1A | G

Firms are reminded that references to '*administration charges*' and 'administration charges' in this section include performance-based fees.

…

Purpose

COBS 19.8.3 | G

…

(2) An *operator* of a workplace *personal pension scheme* or *stakeholder pension scheme* is obliged under *COBS 19.5.7R(2)* to take reasonable steps to provide its *IGC* (or *governance advisory arrangement*) with all information reasonably requested by it for the purpose of carrying out its role. The role of an *IGC*, under *COBS 19.5.5R(2)*, must include the assessment of value for money delivered by relevant schemes through the assessment of ~~transaction costs~~ (among other things) *administration charges*, *transaction costs* and other charges borne by members of the scheme.

(3) The trustees or managers of an occupational pension scheme are obliged to calculate the charges and specified performance-based fees incurred in respect of assets of the scheme and, insofar as they are able to do so, the transaction costs borne by scheme members, and to assess the extent to which those costs represent good value for members. (See regulation 25 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879) and by the Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 (SI 2023/399)).

Obligation to disclose transaction costs and administration charges

….

COBS 19.8.5 | R

In responding to the request referred to in *COBS 19.8.4R*, the *firm* must:

…

(3) disclose the administration charges and transaction costs incurred in that arrangement or any *investment* to which the request relates (including administration charges and transaction costs incurred in any *investment* in which the arrangement or *investment* is directly or indirectly invested); and

…

COBS 19.8.6 | G

…

(2) Other relevant information regarding transaction costs or administration charges might include, in relation to each arrangement (or *investment* in which the arrangement is directly or indirectly invested): the investment return, measures of risk, portfolio turnover rate, proportion of securities loaned or borrowed, costs other than transaction costs, investment performance, contractual terms governing performance-based fees, and typical and maximum levels of entry, exit and switching costs. This is not an exhaustive list, and *firms* should use discretion based on the composition of each particular arrangement (or *investment* in which the arrangement is directly or indirectly invested).

…

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