

John Wotton
Competition and Markets Authority
Victoria House
37 Southampton Row
London WC1B 4AD

21 February 2019

Dear John,

CMA Market Investigation: Investment Consultancy and Fiduciary Management Services

Thank you for your letter of 12 December and your report setting out the CMA's findings and remedies from its market investigation into the supply and acquisition of investment consultancy and fiduciary management services (the 'Report'). I am writing to explain how we will respond to the recommendations in the Report that affect the FCA.

The CMA's investigation and Report follows a reference we made as part of our Asset Management Market Study in 2017. In making the reference to the CMA, we were keen to understand the role investment consultancy and fiduciary management services played in helping institutional investors get value for money from asset management services. As part of this, we set out our grounds for suspecting that a feature, or combination of features, of the UK markets for investment consultancy services and fiduciary management services prevents, restricts or distorts competition in connection to the supply and acquisition of those services.

The CMA has explored these important parts of the investment chain in considerable depth over the past 18 months. I would like to thank your team for the open and constructive way it has engaged with the FCA over this time.

As your Report recognises, investment consultancy and fiduciary management services significantly impact savers' retirement outcomes, influencing £1.6 trillion of pension assets in the UK. So, it is crucial that we get the regulation of these sectors right.

We are committed to ensuring that markets for financial services are fair, effective and work in consumers' interests. This includes savers in pension schemes. The CMA expects up to half of all households in the UK to be affected by the services provided by investment consultants and fiduciary managers.

Your investigation identified an adverse effect on competition in both these markets. This is expected to lead to substantial customer detriment. The competition issues include a low level of engagement by some pension fund trustees in choosing and monitoring their investment consultant and fiduciary manager. The investigation also found that established firms which

provide both investment consultancy and fiduciary management services have an advantage which can impede competition in the market.

The CMA's Report contains 8 remedies and 4 supporting recommendations to address the issues identified. We support this package fully and are working alongside the CMA, the Treasury, the Department for Work and Pensions and the Pensions Regulator to implement it. I will outline the remedies and recommendations that relate to the FCA and how we plan to respond to them. I will not address the remedies and recommendations that are directed at other public bodies.

Remedy 1

This remedy requires pension scheme trustees to tender ahead of purchasing fiduciary management services where the mandate would cover 20% or more of the scheme's assets. As part of this, providers of these services will be prohibited from accepting a mandate unless they have received confirmation that it has been subject to a competitive tender.

Remedy 2

Firms which offer both fiduciary management and investment consultancy services will be required to separate the marketing of fiduciary management services from the provision of investment consultancy advice. Providers of fiduciary management services will be required to identify clearly the marketing of these services and include reminders of the obligation on pension schemes trustees to tender for these services.

Remedy 4

Fiduciary management providers will be required to disaggregate fees for current customers, including providing enhanced disclosure of underlying investment fees.

Remedy 5

The remedy will oblige firms offering fiduciary management services to provide more information about their fees to prospective customers, including transition and exit costs, asset management fees and custodian fees.

Remedy 6

Firms offering fiduciary management services will be required to report past performance to prospective customers using a standardised methodology. The CMA expects that firms will work with pension scheme trustees, independent advisors and the Pensions Regulator to agree a cross-industry standard within 6 months.

Remedy 8

This remedy would require information provided to prospective customers on the performance of recommended asset management products and in-house funds to adhere to certain MiFID requirements. This would affect firms offering both investment consultancy and fiduciary management services. We understand that there will be no change for firms already regulated in respect of their MiFID business.

Supporting remedy - recommendation A

To support these remedies the CMA has also recommended that the Treasury pass legislation to extend the FCA's regulatory perimeter to include all the main activities of investment consultants.

Supporting remedy - recommendation C

The CMA has recommended that the FCA maintain oversight of the industry-led Cost Transparency Initiative, which is working to promote consistent and transparent asset management fee reporting.

FCA response

The CMA will introduce remedies 1, 2, 4, 5, 6 and 8 through a statutory order and the remedies will come into effect 6 months after the order comes into force. Following this, we will consult on introducing into our Handbook the relevant rules for firms offering fiduciary management services. Once these rules are in place, we will supervise compliance in line with our Approach to Supervision, published as part of the FCA Mission.

For those firms which are subject to requirements under MiFID, we are aware that certain parts of the CMA's remedies will sit alongside, and will be additional to, existing obligations under MiFID. We understand that the CMA is currently preparing a notification to be made to the European Commission of those requirements which will be additional to those imposed under MiFID. We will continue to support the CMA in preparing that notification as required.

We support the recommendation to extend our perimeter to capture the full scope of investment consultancy services. We agree that due to the size of the market for investment consultancy services a small change in the quality of service provided could have a significant impact on savers' retirement outcomes. We also note the broad support from across industry for an extension of our perimeter to capture investment consultancy services.

Bringing investment consultancy services into our perimeter would allow us to consider future market developments which may affect pension savers. It would also allow us to consult on rules to incorporate the CMA's remedies into our regulation of the sector. This would include the elements of remedy 8 as they relate to investment consultancy services, which we agree we are best placed to supervise.

We will work with the Treasury and the CMA to take forward the extension of our perimeter. This supports the recommendation in our Asset Management Market Study that the Treasury consider, subject to the market investigation reference, an extension of our regulatory perimeter to include asset allocation advice. Following any extension of our perimeter we will consult on rules for investment consultancy services in line with remedy 8.

We remain committed to supporting industry efforts to drive clear and consistent reporting of asset management fees. We will continue to maintain our oversight of transparency of asset management fee reporting in line with recommendation C. We will also continue to engage with the Cost Transparency Initiative in our status as an observer. As set out in our response to the recommendations made by the Institutional Disclosure Working Group in July 2018, we

will reconsider disclosure to institutional investors if we consider the market is not operating effectively.

Once again, I commend the thorough and considered analysis the CMA has produced during its market investigation. I look forward to our continued work together as we take forward the remedies and recommendations in the report.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'C Woolard', with a small dot at the end.

Chris Woolard
Director of Strategy and Competition