

Institutional Disclosure Working Group report to FCA: Summary

Introduction and approach

In 2017 the UK Financial Conduct Authority (FCA) published its Asset Management Market Study. One of the key findings was that institutional investors find it difficult to get the necessary cost information to make effective value assessments. The proposed remedy was to convene the Institutional Disclosure Working Group (IDWG), a stakeholder working group with an independent Chair, with the objective to “gain agreement on (cost) disclosure templates for asset management services provided to institutional investors”.

A range of experts was selected and invited to join the IDWG with support from several observers and a secretariat provided by the FCA. Approximately 40% of the IDWG was drawn from the institutional investor community and its advisers, 40% from the provider community (asset managers) and 20% from independent experts with a range of backgrounds and skillsets. The Group held its first meeting on 7th September 2017, agreed the Terms of Reference drawn up by the Chair, and was tasked with reporting its findings to the FCA by July 2018. Throughout the process the IDWG has engaged with industry stakeholders outside of the group, and the full report includes key issues of debate and discussion. The IDWG reached consensus over the final templates and their recommendations in June.

The IDWG has now made its recommendations in a report to the FCA. This report, including the templates, will be released in full once a new body or group is convened in autumn 2018 to curate and update the framework as needed in future.

The IDWG has made recommendations to the FCA on:

- Templates for data collection and disclosure
- What arrangements need to be in place to ensure the templates are maintained
- How to encourage providers to offer information using the templates
- How to encourage more users to request information in this format from their providers

Summary of IDWG recommendations

1. The IDWG proposes the use of five templates:
 - A user template summarises data from an account-level template (see below) so institutional investors can easily see the key data from their providers as well as easily segment data along dimensions such as asset class or manager.
 - A main account-level template, covering most product types. This captures data from providers in one place and is therefore additionally fed by three further sub templates where unique costs specific to certain asset classes should be captured.
 - A separate private equity template that feeds summary fields in the account template
 - A separate physical assets template for property that feeds summary fields in the account template
 - A separate ancillary services (custody) template that feeds summary fields in the account template
2. Use of the templates should be voluntary but encouraged through other means such as:

- Pressure from institutional investors applied to providers. Typically, this would be by non-compliance resulting in de-selection from Requests for Proposal and the non-renewal of contracts. This mechanism already exists within the Local Government Pension Scheme Code of Transparency.
 - Investment consultants and other market participants (such as platforms) should adopt a similar selection approach.
 - Industry representative organisations and trade bodies should be prepared to adopt the templates as their disclosure codes and to support the use of the templates by their members. Private equity firms that complete the Institutional Limited Partners Association fee template do not need to also complete the private equity account template.
3. Institutional investor education on the matter of cost disclosure and its benefits should be improved. The IDWG believes the solution to solving this lies with a number of bodies including institutional investors themselves, their advisers, and regulators.
 4. A new body or group should be created and convened by autumn 2018 to curate and update the framework. It should be representative of a wide range of stakeholders. The IDWG recommends the first review point be no more than one year from the inception of the new body or group.
 5. The IDWG recommends that no FCA rule should be written at this time that either mandates submission of data by providers using the templates or mandates the collection of data from providers by institutional investors. The FCA should consider writing rules if: there is poor adoption of the templates by institutional investors or their providers; or institutional investors report difficulties in obtaining cost data to the level proposed in the templates from their providers; or providers are found to have misrepresented data via the templates to clients.

For further detail please refer to the IDWG webpages which include the Terms of Reference, membership list and summary minutes from meetings.