

Summary of discussion

Institutional Disclosure Working Group (IDWG)

Meeting 9 October 2017 (13:00-16:00)

Opening business

1. Members approved the minutes from 7 September meeting.

Hierarchy of instruments, accounts and investors

2. Members discussed the framework/matrix for capturing costs that is in development; the proposed matrix was noted to be at the heart of the methodology for building the disclosure template. Members agreed that the instruments/accounts and investors approach should work well, and that relevant members will feed into the framework to continue to develop the appropriate level of granularity for each. Members also began to scenario test the framework for different asset classes, fund structures, strategy delivery/implementation methods and investor types, for example, closed ended funds.
3. Members discussed the importance of getting the correct balance between granularity, practicality and usefulness to the investor. Members agreed that work can now begin at the level of securities to consider all possible lines of cost, and later a practical approach to the appropriate level of aggregation for the purpose of disclosure can be discussed.

Update from sub-groups

4. The long equity sub-group reported back on their mapping exercise against the Local Government Pension Scheme and Investment Association templates, with broad agreement on the main content and some suggestions for simplification of these. The sub-group agreed to take forward work to map their findings and suggestions onto the developing framework/matrix.
5. Fixed income was discussed as progress has been made against showing how a template on this asset class could be presented to make it more meaningful for the user. This includes grouping the disclosure into different sub asset class categories. The findings were broadly consistent with existing work in this area. It was agreed to now map this on to the developing framework/matrix.
6. Members discussed how Foreign Exchange is used by asset managers and will therefore take forward work to reflect the way these costs are incurred in the framework/matrix.

7. Members discussed existing disclosure in private equity, including the Institutional Limited Partners Association template, and the appropriate level of aggregation given the complexities around this asset class.

Progress against current topics

8. Members discussed a potentially undesirable 'other cost' category, in a general sense but also in relation specifically to trading commissions. A member noted that there are existing issues of incompatibility between European and American approaches to research costs.
9. Members discussed the appropriateness of listing costs that are absorbed by the manager/provider in the disclosure template and reported as a 'zero' cost. Members also discussed the impact on incentives of both absorbed costs and 'zero' cost disclosures.
10. Investment consultant and specifically fiduciary management charging structures were discussed. The members agreed that some of these points should be raised with the CMA. Members also agreed to consider the degree to which fiduciary costs should be captured in the framework/matrix, initially of the view that they should be.

Future topics and plans

11. Members have launched further work to consider topics such as: derivatives, custody, basis point denominator, pounds and pence disclosure, implicit vs explicit costs, investment trusts, real estate including REITs and infrastructure.
12. Some members expressed continued concerns with the proposed timelines and iterative process, particularly that the aim to focus the first set of materials on defined benefit investors for public consultation by the end of December 2017 and that this will leave the industry without a template for delivering the requirements of PS 17/20. Reasons for this included likely workload, engagement requirements and fitting in with parallel regulatory and industry initiatives. Members requested FCA support in compiling materials.

Engagement plan

13. The IDWG agreed that engagement with stakeholders was important and discussed initial thoughts on appropriate timing of any engagement initiatives. Members were broadly in agreement that general commentary should be ongoing whilst the group continues to look at technical aspects, and feedback needs to be collected with ample time for it to be reflected in recommendations. Members agreed that much of the wider consultation could happen from January onwards.
14. Members agreed that other relevant regulatory bodies could be consulted sooner rather than later for their input into any IDWG recommendations, particularly on mainstream templates.

Contextual factors

15. Several members noted incoming regulatory and industry initiatives, including MiFID II, PS 17/20 and the existing LGPS template, that will need to be taken into account when considering consultation and implementation timelines from the perspective of asset managers.

16. The LGPS April deadline and the consequent need to consult on a new template for this deadline was discussed by members. Members raised concerns about whether the IDWG timeline will present providers of templates with problems as this could involve changing their procedures multiple times in order to meet different and evolving requirements over time.
17. A member noted that the IDWG should clearly state that it is not intending to provide a solution for delivering the requirements for PS 17/20 outputs relevant to Independent Governance Committees.