
Response to statement of issues

October 2017

Overall comment

Our comments relate solely to the Defined Benefit Scheme market in the UK. We have no comments to make in relation to occupational Defined Contribution Schemes or the Defined Contribution Mastertrust market.

Spence is in agreement with the general direction of travel contained within the Statement of Issues.

Before we address some of the specific areas where feedback has been requested, we have the following general comments.

We are concerned that the additional compliance burden associated with some of the proposed changes may be prohibitively expensive for some market participants and may act as a barrier to entry. This is because the largest consultancies can access “economies of scale” to spread the compliance costs across a wide customer base, leaving other market participants at a competitive disadvantage. As such, we believe there is a risk that in aggregate some of the possible proposed changes could actually lead to reduced competition.

We would also comment that this review is not looking at the asset management industry. This section of the market also offers fiduciary services. As such, the outcomes of the investigation could place those “in scope” in a disadvantaged position compared with those who are “out of scope”. In particular, as the asset management industry also offers consultancy services, it should also be covered in this review. Also, wealth managers offer similar services such as asset allocation advice and manager selection and we note that they are not covered in this review.

It should be noted that there are already many schemes who do not take investment consultancy services which is leading them to make unsuitable investment decisions. As such, we would not want this review to discourage trustees from the appropriate use of consultants.

As noted in your document, it is difficult to assess the impact of advice. “Bad advice” might lead to good outcomes and vice-versa. Likewise, high returns might be achieved with undue risk being taken that may result in very poor outcomes under certain market conditions.

In response to specific questions:

7 (a) – we believe the issues identified have been have been correctly identified and they should be within the scope.

7 (b) – we refer to our general comments above in that the scope should be extended to various other parties.

7 (c) – please see below specific comments regarding the specific remedies.

Comments made regarding specific remedies

99. Provision of clear, consistent information in relation to fees – agreed. All fees should be shown and explained.

100. Consistent reporting of fees charged compared to quoted or estimated – agreed. In fact, fees should be monitored on a regular basis with various updates provided.

101. Reporting fees to an independent service – whilst we agree in principle to this we have concerns about how this service is funded, operated and monitored. Also, as mentioned, it is not just about level of fee, it is about quality of service which is more difficult to quantify.

102. Clarity of advice on impact on fees – we agree to this. However, we note that this could put trustees off from making the correct investment decisions as strategic changes will have a far greater impact than any fee changes.

103. Ban certain investment consultant pricing practices – this depends on what is looking to be banned and why.

104. Require reporting returns vs benchmarks – agreed, but it depends on what benchmark is used. For example, measuring asset return in “isolation” from the impact on the value of pension scheme liabilities is potentially misleading. In our view, the success or failure of an investment strategy is best measured relative to the changes in a scheme’s deficit or funding level.

105. Require reporting of asset manager fees and discounts achieved – agreed, but it would need to be clear that discounts related to like for like services from the same manager (not discounts/savings relative to other managers or other strategies).

106. Report performance of manager recommendations – agreed.

107. Pension schemes to review consultants and publish results – agreed, but need to clarify what metrics are used and how. There are existing scheme documents (such as summary funding statements or annual reports which could be adapted to contain this information).

108. Introduce mandatory tendering – We believe full tendering should occur on a voluntary basis, but there could be further guidance on the benefits of reviewing advisors and requirements to document such reviews (as per paragraph 106). We have some concerns that mandatory tendering could lead to costly “tick-box” tenders where the incumbent is ultimately retained. Ultimately, if the trustees are satisfied with the service they are receiving and can document reasons for not undertaking a full tender process, that option should remain.

109. Establish rules to improve tendering process – agreed. This should help with the issues identified above.

110. Standardised documents – agreed. This should help with the issues identified above.

111. Aggregation – in our view, the complexity of consolidating DB schemes cannot be overlooked. Legislation would be required to allow the consolidation of benefit structures and we believe this is unlikely. It would not be possible to consolidate schemes without this. We also believe the use of investment platforms gives smaller schemes access to lower manager fees. So, the benefits of economies of scale on investment manager charges can be achieved under the existing framework.

112. Trustees responsible for achieving value for money – agreed. We have noted an increased use of professional and independent trustees in the DB market and we believe this is already

having an influence on trustee boards achieving value for money (and is also instigating the review of existing advisors).

113. We would suggest avoiding a legislative route as a potential remedy. Guidance/codes of conduct would be sufficient.

114. Professional trustees – we believe mandating this may be disproportionate. However, we believe the view of the Pensions Regulator and any method they propose should be given significant weight on this matter. For example, the Pensions Regulator has embarked on a campaign to improve pension scheme governance levels following their consultation on 21st century trusteeship. We believe that any outcomes/remedies that emerge from this review should be consistent/compatible with the Regulator's ongoing initiatives in this area.

115. Enhanced training for trustees – in our view, this could be done through guidance from the Regulator on specific asset classes they believe additional training may be required on or via online training e.g. the trustee toolkit. There is potentially a need for enhanced training on more complex assets classes such as Liability Driven Investments or alternative illiquids. In our experience, most trustees investing in such asset classes are giving training in advance of any investments being made.

117. Greater clarity of services – agreed. We believe this already happens.

118. Mandatory tendering – disagree. We believe this should be voluntary (for reasons stated above regarding consulting services).

120. Prohibit consultancies offering fiduciary management – disagree. We believe that this would be to the disadvantage of trustees as it would reduce competition and puts asset managers/wealth managers at an advantage as they are not covered by this review. Better that conflicts of interest policies are put in place to manage the issue and that there is full disclosure.

121. Measures to control prices for master trusts – no comment.

122. Bringing fiduciary and consultancy services under the FCA remit – agree.

123. Full disclosure of business interests – agree.

124. Impose measures to ensure stronger separation of different business areas – agreed, where practical and such distinctions exist, would be less relevant for all but the largest of consultancies.

125. Limits on hospitality – agreed.

126. Limits on type of hospitality – agreed.

127. Full disclosure on hospitality – agreed.

128. Outright ban on hospitality – disagree, better to manage conflict and avoid certain types of hospitality.

130. Mandatory tendering – disagree, detailed reasons given previously.

131. Divestiture of investment consultancy services – disagree, reasons detailed previously including forcing out a large number of market participants due to compliance burden.

132. Basic FCA accreditation for smaller consultancies – agreed.

Spence & Partners Limited

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