



INVESTMENT CONSULTANCY SERVICES AND FIDUCIARY MANAGEMENT SERVICES MARKET INVESTIGATION

AON RESPONSE TO WORKING PAPER: INFORMATION ON FEES AND QUALITY

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1. INTRODUCTION AND SUMMARY

1.1 This response sets out Aon's initial views on the CMA's emerging findings and potential remedy approaches in relation to its working paper on information on fees and quality published on 1 March 2018 (the **Working Paper**).

1.2 **In summary**, Aon's initial response is that:

1.2.1 Aon operates in a highly competitive marketplace which drives quality customer service and value. The CMA's survey results point to high levels of customer satisfaction with fee and performance reporting but we recognise that more can be done, particularly on comparability of information.

1.2.2 We support quality metrics. Aon has actively taken steps to enhance transparency and disclosure including publishing on our website information on our defined benefit (**DB**) fiduciary management (**FM**) track record and performance of buy rated asset managers.

1.2.3 Improvements are also being made across the industry. Aon, together with other industry participants, is engaging on a number of industry and legislative initiatives which will drive improvements in quality and consistency of information including MiFID II, the Institutional Disclosure Working Group (**IDWG**) established by the FCA and the IC Select FM performance standard. We have also seen and continue to see good practice emerging on defined contribution (**DC**) fee transparency and this will be further enhanced by the new Department of Work and Pensions (**DWP**) regulations, effective from April 2018, on transaction charges. Trustees are also increasingly making use of third party evaluators (**TPEs**) to aid them in evaluating fee and performance information as part of their assessment of prospective providers.

1.2.4 The CMA must not over-regulate. The FCA already regulates the provision of fee and performance information to customers by fiduciary managers and the provision of fee information by investment consultants providing regulated advice (and Aon supports the extension of FCA regulation to advice on asset allocation). The FCA has power to extend and adapt that regulation. The CMA should only consider remedies if they are an effective and proportionate response to a clearly identified adverse effect on competition (**AEC**) which cannot be remedied by less onerous means, including the ongoing industry and legislative developments and / or changes to FCA rules. In Aon's view, there is little in the Working Paper to point to an AEC.

1.3 We also make the following **preliminary points**:

- 1.3.1 Aon notes the results of the CMA's trustee survey have not yet been published. It is clear from having reviewed the draft questionnaire that only a small proportion of the survey findings are referred to in the Working Paper. Aon may provide further comments on information on fees and quality once it has had the benefit of assessing the full detail of the survey findings.
- 1.3.2 We make only preliminary and high level comments on the individual potential remedies identified by the CMA at this stage. Given the detailed and open nature of questions put by the CMA, the stage of the investigation, and that no AEC has been identified, Aon reserves its position to make fuller submissions in due course.
- 1.3.3 The CMA is required to consider remedies earlier in its process. Given we are ahead of provisional findings, the CMA has an opportunity now to consider all the relevant factors relating to information on fees and quality. Aon would be happy to engage with the CMA on this. In Aon's view, there would be merit in the CMA hosting sessions to understand in more detail the issues around information on fees and quality before making its provisional findings.

2. EMERGING FINDINGS

- 2.1 The CMA summaries its emerging findings as *"the evidence reviewed so far indicates competitive processes are not providing customers with the necessary information to judge the value for money of investment consultants and fiduciary managers. The potential competition concern with that is that customers are not well equipped to choose and subsequently monitor the performance of their provider and in turn to drive competition between ICs and between FMs."*
- 2.2 We do not think the evidence presented in the Working Paper does indicate that customers are not receiving the necessary information to judge value for money. The CMA findings point to trustees (both as current and prospective clients) typically receiving detailed information on fees and performance. The CMA does not appear to have identified any particular "shortfall" in the provision of information but considers that there is scope for greater consistency in reporting across the industry. A key part of the CMA's evidence base for the Working Paper, the results of its trustee survey, also highlight that trustees find it easy to understand fee and performance information.
- 2.3 We set out Aon's preliminary views on the CMA's emerging findings below.
- Trustees are able to understand, monitor and compare fee and performance information***
- 2.4 As noted above, the CMA's trustee survey results point to high levels of satisfaction with fee and performance reporting: trustees consistently said that they do not find it difficult to understand, monitor and compare information.

2.5 Aon welcomes these findings. They are consistent with Aon's own experience and submissions to date: the majority of trustees are well-placed to evaluate advice, information and services provided to them.

2.6 Nonetheless, Aon recognises that enhanced transparency and comparability of information empowers trustees: this is why we have actively taken steps to drive greater disclosure including through publication of Aon's FM performance and performance of buy rated managers.

A lack of standardisation should not be equated to a lack of effective competition

2.7 Aon welcomes greater consistency in reporting and considers a more standardised approach will improve trustees' ability to make informed decisions. However, the Working Paper appears to suggest a lack of competition has been the driver for the CMA's identified concerns around comparability of information. Any lack of standardisation of reporting should not be equated to a lack of effective competition:

2.7.1 *First*, as the CMA recognises, providers may use different methodologies for valid and technical reasons and consensus may not always exist on an optimal approach.

2.7.2 *Second*, there is ongoing work to improve consistency of information such as MiFID II, the IDWG and the IC Select FM performance standard. A number of these initiatives have been driven by the efforts of the industry.

2.7.3 *Third*, a relevant factor is that FM, both for DB and in particular DC schemes, is relatively nascent in the UK. As the market develops, Aon expects the consistency of information will improve (not least because of the various ongoing initiatives noted above).

2.7.4 *Fourth*, reporting is linked to the underlying service offering and can be a metric on which providers compete. The variety in approaches is a natural outcome of competition and the marketplace is competitive.

Trustees drive competition between investment consultants and fiduciary managers

2.8 Aon is subject to competitive pressure to be transparent in how it communicates information on fees and performance to trustees in order to win and retain business. Aon faces strong competition in the market from a variety of providers. Trustees also bring competitive pressure. They have ample experience of evaluating professional advisors and will also use other professional advisors including TPEs to evaluate our fees and performance. To retain clients we need to consistently provide a quality service at competitive rates. Aon has already provided the CMA with a number of examples of the competitive pressure clients exert on Aon. Aon refers the CMA, for example, to the case studies discussed at the site visit and Aon's response to Q59 of the market questionnaire.

3. POTENTIAL REMEDY APPROACHES

- 3.1 The CMA sets out a number of potential remedies in relation to each of its areas of analysis. Specific comments on these are provided at Annex I to this response. Aon focuses here on its overarching comments and, in particular, some of the areas where the CMA has invited comments at page 9 of the Working Paper.

Any remedy must be a proportionate and effective response to an identified AEC

- 3.2 The CMA has not at this stage articulated any AEC. Its emerging findings do not point to any clear failing in reporting and, in fact, the trustee survey results suggest trustees find it easy to monitor fees and performance. The CMA should not therefore pursue any remedy unless it would be an effective and proportionate response to a clear and concrete AEC which is not already being addressed by the various ongoing initiatives (see below).

Any remedy must not duplicate or cut across ongoing initiatives

- 3.3 Aon has proactively taken steps to implement a number of the undertakings in lieu (**UILs**) submitted to the FCA by Aon together with Mercer and Willis Towers Watson such as publishing on our website information on the performance of asset manager recommendations and our FM track record. Work is also taking place in the wider industry. There are a variety of important and ongoing legislative and industry initiatives. The CMA must be mindful of these and not seek to over-regulate. Aon sets out some of the key developments below:

3.3.1 **MiFID II:** MiFID II explicitly seeks to increase transparency within financial markets¹ and has introduced numerous measures with a view to achieving this end, particularly in relation to the reporting of costs and charges. This has resulted in the introduction of more rigorous disclosure requirements designed to “*ensure clients’ awareness of all costs and charges to be incurred as well as evaluation of such information and comparison with different...investment services*”². The immediate impact of compliance with the MiFID II fees and reporting requirements is clear; transparency will be improved and there will be more consistency across the market. We analyse MiFID II in more detail in Annex II to this response.

3.3.2 **The IDWG:** the IDWG was set up following the FCA market study to develop a standardised template for cost and fee disclosure to institutional investors. Aon is actively engaged with the IDWG, with a member of Aon’s senior management team contributing as a working group member. The IDWG published a framework for data collection and aggregation, as well as a data framework structure, in December 2017. The draft template is now being developed and tested with the IDWG due to make its final recommendations and report to the FCA in July of this year. The aim for the template is to be free from jargon, accessible and easy to understand,

¹ MiFID II Directive (2014/65/EU) (the **MiFID II Directive**), Recital 4

² Commission Delegated Regulation (EU) 2017/565 (the **Delegated Regulation**), Recital 78

allowing investors to compare charges between providers and giving them a clear expectation of the disclosure they can expect.

3.3.3 The Department for Work and Pensions (DWP) draft regulations on disclosure of costs, charges and investments in DC occupational pension schemes: Following a consultation process between October and December 2017, the DWP has made The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018, due to come into force in April of this year. The regulations will include a requirement on trustees of DC schemes to provide in their annual statement information about the level of costs and transaction charges for each default arrangement and each fund members are able to select, and to make this information publicly available. This includes information about the extent to which the trustees consider the charges and transaction costs represent good value for money.

3.3.4 The IC Select fiduciary management performance standard: this is an industry-led initiative to develop technical standards for the calculation of and template for the disclosure of fiduciary manager's track records. The initiative's stated aims include improving transparency and consistency of performance information, establishing accepted best practice and putting trustees in control of the information they receive and consequently improving confidence in their decision-making.

3.4 Significant time and effort has been put into the development of the above initiatives by industry, regulators and government. Aon considers these are sufficient and appropriate to drive enhanced clarity and comparability of information and Aon is actively engaging with all of these initiatives. In Aon's view, the CMA mandating further initiatives in these areas would be disproportionate.

Any remedy must not be overly prescriptive in a way which might reduce competition and innovation in the market

3.5 The CMA should avoid an overly prescriptive approach. Rigid reporting standards could have the unintended consequence of chilling competition and innovation in the market. Too much standardisation could reduce the metrics on which providers compete. It could also reduce innovation, not only in terms of how providers report information to trustees but also the underlying service offering and fee structure given these are intrinsically linked. The CMA must ensure that any mandated remedies do not restrict the ability of providers to bring new and innovative solutions to the market.

3.6 From the demand-side, there is the potential for over reliance on standard templates meaning trustees do not challenge providers on metrics outside of the standard. There is also the potential that standard templates could lead to the selection of advisors becoming a "tick-box" exercise, (particularly where there is a cost impact in applying the standard for resource and governance constrained

trustees). In either instance, there could be a concern that trustees would not be exerting a sufficient competitive constraint on their providers.

Any remedy should be subject to widespread industry engagement

- 3.7 Aon advocates CMA engagement with the industry on any remedy design, implementation and testing (in the event of a finding of an AEC for which there is an effective and proportionate remedy). The industry is well placed to drive forward initiatives. Responses to the CMA's issues statement and hearing summaries highlight a willingness across the industry to work with the CMA on transparency and consistency of fee and performance information. The industry has a strong record of collaboration bringing about positive change. It is also well informed of the complexities and nuances of the market. Non-binding and industry-led standards should ensure industry buy-in and support while ensuring opportunities for innovation remain.

ANNEX I

AON'S INITIAL COMMENTS ON THE CMA'S AREAS OF ANALYSIS AND POTENTIAL REMEDIES

1. CURRENT CLIENTS: INFORMATION ON FEES (CMA SECTION 1)

- 1.1 For advisory services, the CMA finds that fees are typically clear, with simple, regular invoices. For FM services, the CMA suggests that fee information is less transparent than for advisory services. The CMA also finds that there is lower quality information on third party fees for DB schemes than DC schemes.
- 1.2 The CMA puts forward the following potential remedies for both advisory and FM services:
- 1.2.1 **Mandating the comprehensive disclosure of fees and charges and implementing a minimum frequency for such disclosure, including in relation to third party fees.**
 - 1.2.2 **Providing guidance to trustees on requesting and interpreting fee information, which could include a template to assist trustees with the process of making and interpreting such requests.**

Aon's preliminary views

- 1.3 For advisory fees, the CMA has not articulated any clear concern to remedy.
- 1.4 For FM fees, the CMA suggests fee information is less transparent. Aon seeks to communicate fee information clearly to its FM clients. Fees payable to Aon for FM services are "unbundled" from fees payable to third party managers. However, Aon notes the CMA's comment that the quality of fee information provided to trustees varies as between providers.
- 1.5 Aon supports efforts to ensure higher standards of fee communication across the industry. The UIL package included, for example, a proposed framework for fee information to be provided to FM clients, to take place on an annual basis in a consistent and comparable format (UIL 5).
- 1.6 Wider ongoing industry and legislative initiatives are also now driving improvements in fee reporting. MiFID II already requires more granular disclosure of fees and other charges (please see Annex II to this response) and the IDWG is also developing a disclosure template requiring parties to prepare cost and fee information according to an agreed structure (as discussed at paragraph 3.3.2 of Aon's response above).
- 1.7 These developments are significant and will bring about enhanced transparency of fee information including in relation to third party fees. Aon does not consider that there would be merit in the CMA mandating remedies in this area over and above these initiatives.

2. CURRENT CLIENTS: INFORMATION ON PERFORMANCE (CMA SECTION 2)

2.1 The CMA finds “*no universal shortfalls in information*”. The CMA does, however, conclude that “*there is scope for greater consistency.*”

2.2 The CMA outlines the following potential remedies for current advisory clients (and potentially FM clients for best practice):

2.2.1 **Introducing a standard baseline level of scheme performance information including frequency, requirements for net/gross returns and focus on member outcomes.**

2.2.2 **Guidance to trustees on requesting performance information and how to interpret this information.**

Aon’s preliminary views

2.3 Aon supports the drive for greater consistency in performance reporting. For FM services, the proposal of an industry standard for performance disclosure formed a key part of the UIL package (UIL 3). Aon has since taken steps to implement this UIL and makes its FM track record publicly available on its website. Additionally, there is the ongoing work of IC Select to develop an industry standard on FM performance. While this initiative focuses primarily on prospective clients, our view is that it will also play a role in providing current clients with a benchmark for ongoing monitoring.

2.4 Aon believes that performance should be measured where accountability lies. Where an FM mandate is in place, the client has delegated authority to the fiduciary manager. Responsibility for performance therefore lies with that fiduciary manager. In a consulting context, Aon has an advisory role only: responsibility for decision making ultimately rests with the trustees. For advisory clients, performance should therefore be measured by the trustees at the scheme level.

2.5 We would support performance reporting by trustees. This could be broadly similar to the ongoing initiatives in the FM space such as the IC Select FM performance standard i.e. measuring scheme performance relative to liabilities. To the extent that a consultant has advised on particular aspects of the strategy, and that advice has been followed by the trustees, the performance delivered by that advice would be considered by the trustees and factored into their report. While responsibility would ultimately sit with the trustees, investment consultants could play a role in assisting trustees to prepare the necessary information. At present, Aon would not however in all cases have the necessary information to do this on behalf of trustees.

2.6 In the DC space, Aon’s recommended performance reporting focuses on: performance over appropriate time horizons, level of risk taken and future member outcomes. Aon believes it important that performance reporting reflects the long term nature of the investments. As a result, Aon’s standard reporting lists investment manager and strategy performance with the longest period first and shorter periods shown to the right. This is to focus attention on what is key: have the managers achieved the long-term objectives expected of them?

2.7 Aon notes the CMA's finding that performance reports for DC schemes do not provide detailed information on member outcomes. Aon is focused on how overall strategy is delivering for members (i.e. members' expected benefits relative to their expected income needs at retirement). That is why we designed our tailored Member Outcomes solution which we consider to be best practice. Member Outcomes enable trustees and scheme sponsors to understand all the moving parts that impact expected member outcomes. This helps to ensure that the key risks members face during their savings journey are understood and the analysis allows longer term trends to be identified and appropriate action taken.

3. PROSPECTIVE CLIENTS: INFORMATION ON FEES (CMA SECTION 3)

3.1 The CMA's identified concern relates primarily to comparability of fee information, for example "*varying presentation of fee information in advisory makes comparison difficult. Comparison in FM is easier but fee breakdowns and detail on third party fees is variable.*"

3.2 The CMA has put forward the following potential remedies for both advisory and FM clients:

3.2.1 **A duty on firms to provide minimum level of fee information.**

3.2.2 **A tender toolkit for trustees including template documentation.**

Aon's preliminary views

3.3 Aon supports measures to assist trustee decision-making including on fees. Particularly in an advisory context, the proposed scope and design of work and related fee structure can vary considerably between bidders. This is fundamentally pro-competitive: it gives prospective trustee clients choice.

3.4 Aon strongly encourages the CMA to avoid an overly prescriptive approach. Mandating the provision of fee information according to strict requirements could have the effect of reducing innovation in fee structures. But, importantly, a bidder's proposed fee structure will be linked to the underlying proposed service offering. Varied service offerings follow through into varied fee structures: too rigid an approach by the CMA could have the unintended consequence of reducing innovation in general.

3.5 MiFID II prescribes the information on fees and other charges to be disclosed to prospective clients. The IDWG is developing best practice recommendations on how disclosures should be made. The CMA has not identified any AEC and in Aon's view any CMA remedy in this area would be disproportionate and unnecessary and may give rise to unintended consequences.

3.6 Across advisory and FM services and for trustees of both DB and DC schemes, the focus should be on ensuring prospective providers have a clear steer on trustees' needs and requirements rather than mandating prescriptive standards and templates. Aon supports initiatives to assist trustees and considers there may be value in a tender toolkit being made available to trustees. Aon makes the following initial comments:

- 3.6.1 There are a number of relevant resources currently available to trustees such as the Pension Regulator's trustee toolkit and Law Debenture's essential guides for investment and getting the best from advisers. The CMA should consider what guidance and / or template documentation it is proposing and whether it would be meaningfully different from currently available resources.
- 3.6.2 Notwithstanding the above, Aon thinks there could be a potential cost benefit to trustees in being able to access readily available and off-the-shelf materials for use which can then be tailored as necessary to meet their individual needs and requirements.
- 3.6.3 There is again potential for unintended consequences in that if the CMA mandates too much, tender processes could become a tick-box exercise, particularly for schemes with governance and resource constraints.
- 3.6.4 It will be important that the CMA ensures trustee buy-in. Aon would encourage the CMA to engage with trustees, together with the wider industry, if it is minded to pursue this remedy. The Pensions Regulator may be well placed to work with the CMA on this.

4. **PROSPECTIVE CLIENTS: INFORMATION ON PERFORMANCE (CMA SECTION 4)**

- 4.1 The CMA has identified "*no common shortfalls in information across service/client type*" in relation to the performance information that is provided to prospective clients. It has, however, noted that there may be scope for greater consistency in the information provided in order to better facilitate performance comparability across firms.
- 4.2 The CMA puts forward the following potential remedy in relation to FM services:
 - 4.2.1 **The adoption of a standardised approach to FM performance and use of composites.**

Aon's preliminary views

- 4.3 As referenced at Section 2 above, one of the key proposals in the UIL package was the quarterly publication of information on fiduciary management performance for 'whole of scheme' discretionary mandates (UIL 3). It was proposed that performance would be measured according to an agreed methodology that would see each firm compare a standardised set of composites against an appropriate liability benchmark in order to show risk and return data over defined periods. Adoption of this proposal would enable direct comparison of fiduciary managers' track records over consistent time periods, according to particular return objectives and in respect of comparable mandates. In developing this standardised methodology care was taken to ensure that the overall performance data produced would be easy to understand and would have meaning for clients, producing a measurement that was directly relevant to their own objectives.

- 4.4 As the CMA is aware, Aon has already put this UIL into practice by publishing its whole of fund fiduciary management performance information on its website, which is calculated using the methodology proposed in the UIL package.
- 4.5 Aon is also part of the IC Select initiative which, as described at paragraph 3.3.4 of Aon's response above, is an industry-led initiative to develop technical standards for the calculation of and a template for the disclosure of fiduciary managers' track records. To a degree this initiative fed into the development of UIL 3 of the UIL package.
- 4.6 Aon welcomes the drive for increased comparability of fiduciary management performance information and has clearly demonstrated its commitment to assisting in the development and implementation of initiatives that seek to achieve this end. The IC Select initiative is significant and Aon considers it is sufficient. The commencement of any further initiatives covering the same ground in this area by the CMA would be disproportionate.
- 4.7 The CMA puts forward the following potential remedy in relation to advisory services:
- 4.7.1 **Introducing a standard baseline level of performance information including frequency, requirement for net/gross returns and focus on member outcomes.**

Aon's preliminary views

- 4.8 The introduction of a standard baseline level of performance information for the investment consultancy market is discussed at Section 2 above in relation to current clients, and the same analysis applies in the case of prospective clients.
- 4.9 The CMA outlines the following potential remedies in relation to both advisory and FM services:
- 4.9.1 **A tender toolkit for trustees including template documentation.**
- 4.9.2 **A duty on firms to provide information in accordance with the toolkit or other minimum standards on a comparable basis and against relevant benchmark.**

Aon's preliminary views

- 4.10 The introduction of a tender toolkit for trustees is discussed at Section 3 above.

5. OTHER INFORMATION ON QUALITY (CMA SECTION 5)

- 5.1 The CMA's emerging finding is that "*information on service and client satisfaction included in tenders or marketing materials is not directly comparable or may be selectively chosen.*"
- 5.2 The CMA sets out the following potential remedy:
- 5.2.1 **A remedy that requires the collection of objective client feedback and dissemination to prospective clients.**

Aon's preliminary views

- 5.3 Aon agrees that client satisfaction, quality of service and other aspects of “soft” quality are important to the services that it provides. However, contrary to the CMA’s contention that it may be possible to collect objective client feedback, Aon considers client feedback on such topics to be inherently subjective. The approach currently taken by investment consultants and fiduciary managers of providing, for example, case studies, survey results and client testimonials in tender and marketing materials is expected to be broadly similar to the practice that is adopted across many other professional services industries. Further, the CMA has not articulated any competition concerns in this area and the CMA survey findings do not suggest there is any trustee concern. The development and implementation of a remedy concerning client satisfaction therefore appears to be disproportionate.

ANNEX II

CMA WORKING PAPER: INFORMATION ON FEES AND REPORTING MIFID II CONSIDERATIONS

1. MIFID II IMPACT OVERVIEW

- 1.1 MiFID II³ is a far reaching piece of legislation the core purpose of which is to remedy numerous weaknesses in the market that were exposed by the financial crisis. Of particular relevance in the context of the Working Paper, MiFID II explicitly seeks to increase transparency within financial markets⁴ and has introduced numerous measures with a view to achieving this end, particularly in relation to the reporting of costs and charges. As MiFID II only came into force on 3 January 2018 certain documentation and processes that have been considered to date by the CMA in relation to the disclosure of fees and reporting will be out of step with current regulatory requirements and expectations.
- 1.2 Aon is therefore of the view that, when considering issues of transparency, particularly within the context of fees, the CMA should not focus on the historic reporting procedures that have been in place at the relevant firms. Rather it should look forward to the adequacy of the procedures that are now required, and which were years in the making. Aon does not agree that the CMA “*cannot yet conclude on the impact of MiFID II*”⁵. Although the full repercussions on the market cannot yet be known, the immediate impact of compliance with the MiFID II fees and reporting requirements is clear; transparency will be improved and there will be more consistency across the market.
- 1.3 The CMA noted in the Working Paper that it received mixed responses on the impact of MiFID II on the consultancy market. This may derive from differences in the nature of the advice that is provided amongst investment consultancy (**IC**) firms. IC firms will only be caught by the requirements of MiFID II where they are making a recommendation to buy or sell a particular investment. As such, providing advice on asset allocation, which discusses investments on a generic basis rather than identifying particular investments to buy and sell, will not fall within the MiFID II regime. This is a regulatory gap that was identified as part of the FCA Asset Management Market Study and Aon has previously expressed support for bringing asset allocation advice within the regulatory perimeter.

2. MIFID II IMPACT ON INFORMATION REGARDING FEES

- 2.1 MiFID II introduces more rigorous fee disclosure requirements designed to “*ensure clients’ awareness of all costs and charges to be incurred as well as evaluation of such information and comparison with different...investment services*”⁶. Aon considers that a number of emerging findings identified by the CMA in the Working

³ Consisting of the MiFID II Directive (2014/65/EU) and the MiFIR (Regulation 600/2014)

⁴ MiFID II Directive, Recital 4

⁵ Working Paper, p19

⁶ Commission Delegated Regulation (EU) 2017/565 (the **Delegated Regulation**), Recital 78

Paper will be addressed by the measures that have already been introduced in MiFID II, as is demonstrated below.

2.2 **CMA Emerging Finding:** *FM fees are generally less transparent than in advisory. In particular, regular invoices may not be provided and the services covered by an invoice may be unclear (for example, transaction costs may not be included).*

2.3 **CMA Emerging Finding:** *Little, if any, regular information is provided to DB clients by most FMs and (to a lesser extent) ICs regarding third party fees. It was noted that the same concerns do not arise in the DC sphere due to regulatory requirements concerning third party fee disclosure.*

2.3.1 New requirements brought in by MiFID II require investment firms to disclose, at the point of sale and on an annual basis thereafter, granular detail about the costs and charges involved in the service proposed/provided to their client.⁷ In particular this disclosure must include all information relating to both the FM/IC⁸ service and ancillary services, including any third-party payments. The MiFID II Delegated Regulation provides further detail, setting out that the following shall be included:

- (a) One-off and ongoing charges related to the provision of the FM service;
- (b) Costs related to transactions initiated in the course of providing the FM service;
- (c) Charges relating to ancillary services; and
- (d) Incidental costs.⁹

In order to facilitate a consistent approach, the European Securities and Markets Authority has published additional guidance on the costs and charges information that should be included, including a standardised method for calculating transactions costs.¹⁰

2.3.2 As standard, the costs and charges described above are to be aggregated¹¹ and expressed to the client in both cash and percentage terms¹² alongside an illustration depicting their cumulative impact on investment returns.¹³ These are explicitly designed to help the client understand the overall cost and cumulative impact on their investment returns. It should additionally be noted that, despite the standard aggregation requirement, third party payments should be separately

⁷ MiFID II Directive, Article 24(4)

⁸ Please note that where reference is made to the manner in which MiFID II impacts ICs in sections 2 and 3 of this Annex we are referring only to those ICs that fall within the remit of MiFID II, as described in section 1.3 above.

⁹ Delegated Regulation, Article 50(2) and Annex II

¹⁰ [ESMA Questions and Answers on MiFID II and MiFIR investor protection and intermediaries topics](#), see in particular, section 9 questions 12 and 13

¹¹ MiFID II Directive, Article 24(4)

¹² Delegated Regulation, Article 50(2)

¹³ Delegated Regulation, Article 50(10)

itemised. All information must be presented in a manner which is clear, fair and not misleading,¹⁴ and in a comprehensible form.¹⁵

2.4 CMA Emerging Finding: *FM clients are rarely informed of the impact that any changes to the investment strategy or underlying funds will have on third party fees. This information is provided by ICs, but often lacks clarity.*

2.4.1 MiFID II requires that any material change to the costs and charges information that is disclosed to a client, which shall include separately itemised third party fees, must be notified to the client in good time.¹⁶ As a consequence, to the extent that a change to the investment strategy or underlying funds will have a material impact on third party fees then FMs/ICs are required to inform impacted clients.

2.4.2 Although 'materiality' is not defined, Aon considers any such change that will result in the prior disclosure no longer being clear, fair and not misleading, to be material and so trigger an update to the client. This update will itself also need to be presented in a manner which is clear, fair and not misleading.

2.5 Moving forward the MiFID II requirements will ensure that clients receive:

2.5.1 regular (at least annual) fee disclosures, including a breakdown of third party payments;

2.5.2 clarity regarding the services included in the fee, which will be consistent across the market; and

2.5.3 notification of material changes to costs and charges disclosures, including third party fees.

¹⁴ MiFID II Directive, Article 24(3)

¹⁵ MiFID II Directive, Article 24(5)

¹⁶ Delegated Regulation, Article 46(4)