KPMG

KPMG LLP
15 Canada Square
London E14 5GL
United Kingdom
Tel +44 (0) 20 7311 1000

Mr Peter Swan
Markets and Mergers Group
Competition and Markets Authority
Victoria House
37 Southampton Row
London
WC1B 4AD

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Dear Peter

Investment consultants market investigation

KPMG Response to CMA Working Paper 4 – Trustee engagement

Please find enclosed the response submitted on behalf of KPMG LLP to the CMA's Working Paper dated 12 April 2018 on trustee engagement.

Yours sincerely

KPMG LLP

Enclosures: *KPMG response to Working Paper*

KPMG response to Working Paper

Thank you for affording us the opportunity to comment on the CMA's 'Working paper: Trustee engagement' (the "**Working Paper**"), published on 12 April 2018.
Overall, we would concur with certain key findings (particularly that larger DB schemes have the resources and governance structures that lead to evidence of greater engagement with their advisers). Our experience is also that IC advice does in fact come under significant challenge from multiple stakeholders; the trustees, their other advisers, the sponsor and the sponsor's advisers. With this support, Trustees are well placed to assess and identify the best value for money and, where appropriate, switch services and suppliers.

We would support remedies which can ensure that all schemes feel able to engage better with their advisers, in order to drive the best possible outcomes. Ideally these would deliver benefits net of the costs involved. A positive side effect would be for the 27% of schemes that do not use an investment consultant to feel that there were benefits in doing so – a deeper market would help drive further competition. However, we also note that despite consideration of potential remedies in this Working Paper, it remains an open question (on which the CMA has yet to reach a provisional view) as to whether an AEC has been found to arise in relation to trustee engagement. Furthermore, while in some cases the remedies outlined appear helpful, it is difficult to assess proportionality in the absence of any estimates of costs. We look forward to the opportunity to engage further with any proposed remedies, as appropriate.

We would agree that in general the switching process in FM can be costlier and take longer than it does for IC. Much of this will be down to changing the physical asset portfolio and thus the potential for reducing time and costs may be limited (and out of the power of the FM provider in question).

In relation to the CMA's proposed remedies, we would note that:

- Any information about the total costs of FM (including potential switching costs at a later date) will help trustees in the assessment of whether to appoint an FM provider. Given the very different nature of FM portfolios, it may be difficult to prescribe a standard methodology for doing this (and thus make it mandatory), although one which gives a fair reflection of market costs and liquidity should be the minimum and may itself drive a practice of greater transparency.
- As in earlier papers (and subject to our comment above in relation to the potential difficulties of using a standard methodology to present total costs of FM portfolios), we support the use of standardised templates to drive trustee engagement, in particular, where this information can help trustees better assess the responses they receive from providers.
- As we would expect, we note that trustees find that the cost of switching IC provider to be very low. We find that after switching IC, trustees that do make changes to their investment strategy may incur some upfront costs for the scheme. However, trustees recognise that these costs are necessary to deliver a better strategy to meet the scheme's long term objectives.

- We would encourage trustees to receive education about the different governance models (which may involve greater use of professional trustees) and which may thus improve their engagement levels. However, we would be wary about making professional trustee representation on scheme boards mandatory without some sort of minimum standard quality or kitemark.