

**Response to working paper: competitive landscape**

This is LCP's response to the CMA's working paper, "Competitive Landscape", which forms parts of its market investigation into UK investment consultants.

We welcome the opportunity to comment on the working paper. We have only a few select comments to make on this working paper.

**Distinction between IC services and FM services**

We welcome and agree with the finding of the working paper that there is a **clear distinction** between IC services and FM services.

We understand though why there may be a perception of a continuum of services from IC advice through to a full FM service. These services might cover:

- Advising on the suitability of options without a firm recommendation.
- Advising on the suitability of a wide range of options, but with a firm recommendation.
- Offering a firm recommendation with perhaps only limited consideration of other options as part of the advice: "directed" advice.
- Offering operational structures, such as fund platforms, to allow easy implementation of a recommendation, or offering a service to draft instructions to purchase or sell fund units in accordance with a recommendation.
- Fiduciary management.

We think this potential perception of a continuum means that it can be unclear to trustees as to when advisory services end and when FM services start. Many of the IC-FM firms appear to suggest that FM services provided to existing IC clients are merely an extension of their existing service offering. See, for example, paragraph 1.4 of Willis Towers Watson's response to the CMA's statement of issues; and paragraph 2.3 of Mercer's equivalent response.

However, we believe there is a clear distinction (and therefore a "cliff-edge") at the point at which FM services begin that makes them a fundamentally different offering. This distinction is important, as we believe the services of IC and FM can and should be clearly differentiated by the provider.

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The change from IC to FM services occurs when the FM takes responsibility for implementing portfolio changes without prior notification or referral to the client. The IC / FM distinction is clear in regulation: discretionary portfolio management requires a firm to have and to exercise the specific FCA permission of Managing Investments.

Advising on investments, with the ultimate investment decision retained by the client, is a different service from one that takes discretionary control of assets. The latter, part of an FM service, is discretionary asset management by another name.

We note that many IC-FM firms have implicitly accepted this distinction in the conflicts of interest policies they have introduced that seek to manage the transition from one service to the other.

#### **Distinction between FM services and asset management services**

We believe that there is no clear distinction between fiduciary management services and asset management services.

In particular, the provision of partial-FM services – management of a sub-set of the assets of a pension scheme – is virtually indistinguishable from a fund-of-funds service offered by an asset manager.

An asset manager could also offer the equivalent of a full-FM service – management of all a scheme's assets – but call it an asset management service.

Therefore, we believe that any proposed remedy on FM service providers should not result in an inconsistent market treatment of FM service providers and asset managers. They are essentially the same service and accordingly should compete on a level playing field.

Considering FM services as distinct from asset management could also mean that customers do not make the appropriate comparisons when purchasing FM / asset management services – distorting competition. For example, pension scheme trustees should, generally, compare a partial-FM service to a fund-of-funds management service offered by an asset manager.

#### **IC services competitive landscape**

Our experience agrees with the CMA's finding that the market for IC services is broadly competitive. Market concentration is primarily due to historic mergers of firms. As set out in the working paper, this is reducing over time.

**3414508** **FM services competitive landscape**

Page 3 of 3 We agree that the CMA should have concerns that the concentration in the FM services market could further increase. In particular, given the way in which market is currently structured, the combined IC-FM firms can be expected to continue to grow and increase market share. We would expect the IC-FM firms to seek to grow their FM services business as it is relatively more profitable than IC services<sup>1</sup> business and can be artificially insulated from competitive pressure by virtue of the complexity of the product.

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<sup>1</sup> Paragraph 76 and 86 of the CMA's working paper "the supply of fiduciary management services by investment consultancy firms".