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Dear Peter

**Investment consultants market investigation**

**KPMG Response to CMA Working Papers 5 and 7**

Please find enclosed the response submitted on behalf of KPMG LLP to the CMA's Working Papers dated 26 April 2018 on barriers to entry and expansion in, and the competitive landscape of, the investment consulting ("IC") and fiduciary management industry.

Yours sincerely

**KPMG LLP**

*Enclosures: KPMG response to Working Papers*

### KPMG response to Working Papers

Thank you for affording us the opportunity to comment on the CMA's working papers "Barriers to entry and expansion" ("Barriers Paper") and "Competitive Landscape" ("Landscape Paper"), both published on 26 April 2018.

Our comments on the emerging findings in relation to the IC market are noted below.

The CMA's findings and commentary in the Barriers Paper, specifically in relation to the IC market, aligns with what we have observed. We agree that smaller firms (including KPMG) over time have been able to **enter** the IC market. This entry has, in part, been possible through utilising the reputation of key individuals or existing brands in the early stages of entry.<sup>1</sup> We also agree that there are some natural barriers to entry, such as the need to establish a research offering. In our view, however, these costs of entry are imperative in order to provide a credible service in the market.

We would also agree with the CMA's broader findings regarding the ability for smaller firms and new entrants to **expand**. In our experience, it can be difficult for smaller players to be invited to tender for new mandates (reducing expansion), even when there is brand recognition or experts with strong reputations.<sup>2</sup>

The CMA's findings and commentary in its Landscape Paper, specifically in relation to the IC market, also align with what we have observed. Specifically, the CMA concluded that the IC market itself has grown in nominal terms, with concentration (measured in HHI terms) falling slightly over this period. In our view, this corroborates the findings observed in the Barriers Paper – while there has been entry and expansion by smaller firms, it is taking time.

In our view these papers suggest that, were the CMA to find an AEC, some of the remedies outlined to date may be helpful. Specifically, remedies that look to increase Trustees' ability to initiate tender processes and assess information during them may help to increase both the consideration of tendering and the number of firms Trustees invite. Further, increased use of professional trustees who hold knowledge of a wide range of firms and their relative advantages would continue to enhance competition.

As outlined in our response to the CMA's working paper on Information on fees and quality, assuming an AEC is found, we are in principle supportive of the types of information-led remedies discussed above and we would be happy to engage further when design and proportionality are being considered.

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<sup>1</sup> When discussing brand and reputation at paragraph 41 of the Barriers Paper, the CMA notes that IC and FM services could be "credence goods", defined as goods which are "difficult to determine its quality and value for money even after purchase due to the bespoke nature of such services and the uncertain impact of the service provision". We would disagree that IC services are a credence good as per the CMA's definition. While we agree that certain potential remedies suggested to date by the CMA may be helpful in **enhancing** Trustees' ability to "assess" services and value for money both prior to and during IC engagements, the CMA has already presented a range of evidence that suggests Trustees are capable of assessing providers in the current climate.

<sup>2</sup> We would note, however, that in certain cases this may be a practical point. The cost of tendering can be significant for both bidders and the party tendering the mandate. A tender process that involves inviting a substantial number of firms could be disproportionate or lead to other unintended consequences (such as a fall in quality of the bids received).