

Financial Services Regulatory Alert

October 7, 2016

Full Disclosure: FCA Proposes Additional Cost Transparency Obligations for UK Managers

Key Point

- Proposed rules require UK firms to identify and disclose all transaction costs incurred for pension fund investors.



The Financial Conduct Authority (FCA) has published a Consultation Paper (CP16/30) which proposes rules and guidance to improve the disclosure of transaction costs in workplace pensions. The proposed rules have a broad application and will apply to not just the managers of occupational pension schemes but to any UK-authorized firm which holds information necessary for the calculation of transaction costs “in the course of providing services in connection with ... an investment vehicle in which a [pension scheme] is invested.” These rules are therefore likely to further increase the monitoring and record keeping obligations of any UK-authorized firm that acts as the manager of or sub-advisor to an investment fund in which UK pension schemes are invested.

CP16/30 sets out standards to enable independent governance committees and trustees of occupational pension schemes (pension scheme governance bodies) to obtain, for the first time, a standardised disclosure of the transaction costs that pension investments incur, with the objectives of:

- delivering a high degree of consistency in how transaction costs are reported, and
- giving governance bodies confidence that the information presented to them contains a comprehensive assessment of the costs incurred on their behalf by investment managers.

In particular, CP16/30 proposes to require all FCA firms which provide services in connection to occupational pension schemes to provide, when requested by the trustees or manager of an occupational pension scheme, full disclosure of transaction costs and administrative charges for investments made on behalf of the scheme. A firm that receives such a request must take reasonable steps to obtain the information, which should include making the same request of any other UK-regulated firm that may have the information (and which firm will then fall within the scope of the rules), and if it is unable to provide the information must give a written explanation as to why this is the case.

“Transaction costs,” as described by the FCA, include both explicit costs separately charged to, and paid by, the relevant investment product, and implicit costs included within the price at which the transaction takes place. As the methodology for calculating implicit (i.e. hidden) transaction costs – the calculation of which the FCA considers to be the greatest challenge – the FCA proposes that firms compare the actual price paid for an asset to the value of the asset immediately before the trade order entered the market (the “slippage cost methodology”).

Compliance with these proposed rules may necessitate implementation of new trade monitoring and recording systems (whether manual or automated).

The FCA invites interested parties to respond to its consultation paper prior to 4 January 2016 and expects to publish feedback and final rules during Q2 2017.

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