

Competition & Markets Authority Review of UK Investment Consultancy & Fiduciary Management Services

Joe Mottley
Verus Advisory Limited



Agenda

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2. Why should it be of interest to Irish pension trustees?
3. How did it come to this?
4. What areas are being investigated by CMA?
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6. How might Irish pension trustees address the issues raised?
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What's it all about?

September 14th 2017:

“The Financial Conduct Authority (FCA) has today confirmed its final decision to make a Market Investigation Reference (MIR) to the Competition and Markets Authority (CMA) in relation to investment consultancy and fiduciary management services. This is the first time that the FCA has made such a reference to the CMA.”

www.fca.org.uk

Why is it of interest to Irish pension trustees?

- Close similarity of investment consulting and fiduciary management markets in Ireland and UK
- Same trust-based pension model and governance structures
- Same leading providers in both markets, with closely integrated operations
- Any changes to corporate structures dictated by CMA likely to affect Irish operations



market deficiencies identified in UK likely to be echoed in Ireland, and changes mandated by CMA will have implications here

How did it come to this?

- Nov-16 FCA Asset Management Market Study Interim Report
- Various issues of concern identified in retail asset management and in investment consultancy/fiduciary management
 - With regard to the latter:
“... we are consulting on making a Market Investigation Reference to the CMA...”
- Feb-17 Top three consultants propose ‘Undertakings in Lieu’ (UIL) to forestall MIR
- Jun-17 FCA Asset Management Market Study - Final Report
- Provisional decision to reject UIL, further consultation undertaken
 - Look to extend regulation to consultants’ asset allocation advice
- Sep-17 Final decision to make MIR

Concerns identified by FCA?

- High concentration - market share of top 3 estimated at c. 60%
- Weak demand side, with trustees having difficulty in assessing and comparing costs and quality of service from consultants
- Low rate of switching
- Barriers to expansion for smaller/newer providers
- Conflicts of interest when providing fiduciary management
- Adoption of fiduciary management without competitive tendering

What areas are being investigated by CMA?

“Statement of Issues” published 21-Sep-17

Three principal areas highlighted -

1. Difficulties in customers’ ability to effectively assess, compare and switch providers
2. Conflicts of interest
3. Barriers to new providers entering market and to expanding services

⇒ Menu of potential remedies set out for each area

Possible Remedies? - Area #1

“Difficulties in customers’ ability to effectively assess, compare and switch providers”

- Improved and more consistent fees disclosure by consultants
- Report pension fund returns against agreed benchmarks
- Mandatory reviews of consultants by trustee boards
- Mandatory tendering for all investment consulting and fiduciary management services
- Require inclusion of at least one professional trustee on every board

Possible Remedies? - Area #2

“Conflicts of interest”

- Give greater clarity to trustees when proposing a transition to fiduciary management
- Mandatory tendering for fiduciary management services
- Ban investment consultants from providing fiduciary management services

Possible Remedies? - Area #3

“Barriers to new providers entering market and to expanding services”

- Require mandatory tendering for investment consulting and fiduciary management
- Enforced separation of investment consulting and fiduciary management services

What should Irish trustees do?

- Demand appraisal of asset allocation and manager selection outcomes against appropriate benchmarks and alternative choices
- Be prepared to periodically re-tender investment consultancy services
- Fiduciary management:
 - *Be aware of conflicts of interest*
 - *Use a competitive process when engaging a manager*
 - *Consider engaging independent oversight*

Wrap-up

- FCA identifies material deficiencies in operation of UK investment consultancy and fiduciary management market
- CMA reference may result in mandatory changes to market structures & behaviours
- Ireland and UK are similar and closely interlinked markets
- Irish pension trustees should be aware of issues considered by FCA/CMA and take appropriate mitigating actions