FCA Asset Management Study - Interim report

What does it mean for Fiduciary Management?

November 2016

What is the FCA Asset Management Study?

The Financial Conduct Authority (the regulator of financial firms in the UK) is looking into the competitiveness of the asset management industry in the UK. Their aim is to ensure the market works well and that the investment products consumers use offer value for money.

In November 2016 they published a comprehensive interim report. The report investigates many areas of the asset management industry including Fiduciary Managers, and will be followed by a full report in 2017. The FCA is inviting comments by 20 February 2017.

The full document can be found at:
www.fca.org.uk/publications/market-studies/asset-management-market-study

The report is wide ranging and we have considered here those areas we believe to be of greatest relevance to Fiduciary Management.

What does it say about Fiduciary Management (FM)?

Fiduciary Management is recognised as an important area by the FCA. They highlight a number of areas where they have potential concerns including:

- Limited transparency and consistency on fees
- Limited data on performance and cost
- Limited monitoring of Fiduciary Managers
- Possible conflicts of interest where investment consultants provide FM services

However they also note that Fiduciary Management can work well and that some participants have taken measures to address the shortcomings.

"***There is limited independent monitoring and scrutiny of the fiduciary manager***"

FCA Interim Report November 2016

What does it mean for me if…

…I am choosing an FM?

The clear implication from the report is that Trustees would be better served by selecting from among a number of Fiduciary Managers, rather than just looking at a single Manager.

…I currently use an FM?

The FCA evidently believe that Trustees should have a robust process in place for monitoring their Fiduciary Manager, in order to make sure that they continue to get value for money.

Three areas where the FCA have identified potential problems are:

- Whether active managers chosen by the Fiduciary Manager are adding value
- Whether the fees paid to active managers are negotiated in the best interests of investors
- Whether the fees paid to a Fiduciary Manager reflect up-to-date market levels

What happens next?

The conclusions from the report are not yet finalised but the FCA has set out proposed remedies including:

- Strengthening the duty on managers to act in their clients' best interests
- Greater clarity on fees and charges
- Clearer disclosure of fees and performance
- Possible reference to the Competition and Markets Authority in relation to the operation of the investment consulting market

We think that this study can benefit Trustees and pension schemes using Fiduciary Management through promoting transparency, cost control and good governance

For more information please contact:

Simeon Willis 020 7694 4408 Simeon.Willis@KPMG.co.uk

Anthony Webb 020 7311 8508 anthony.webb@kpmg.co.uk