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Karen Northey
Asset Management and Funds Policy
Financial Conduct Authority
25 The North Colonnade
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By email: cp17-18@fca.org.uk

Dear Ms Northey,

## Response to CP17/18: Consultation on implementing asset management market study remedies and changes to Handbook

ShareAction is a registered charity established to promote transparency and responsible investment practices by pension funds and other institutional investors. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters. We work with asset managers and other institutional investors to promote stewardship and engagement, and we also conduct annual industry-wide surveys to rank them on these activities. We recently gave evidence to the BEIS Select Committee on their corporate governance inquiry and have extensive experience of research and policy development on barriers to long-termism having fed into consultations such as the 2012 Kay Review.

ShareAction is funded by charitable foundations and trusts, government departments and individuals, not by financial institutions.

We have responded to the particular questions on which we feel we can add value. These predominantly relate to those in Chapter 3 of CP17/18. In summary, we are broadly supportive of the proposals to require AFMs to assess value for money and to introduce independence to the AFM boards. However, we do not think that the measures proposed to do so go far enough. Furthermore, ShareAction is undertaking a review of the annual reports for the independent governance committees (IGCs) in the workplace pension sector. We do not think that these are universally performing well and we are concerned by any suggestion that these be used as a model of best practice to be translated into the AFM sector.

### Q1: Do you agree that we should introduce a specific rule requiring AFM boards to assess value for money?

Yes, it is a key component of ensuring that they acting in the best interests of their investors.

### Q2: Do you agree with the specific requirements of the assessment? If not, what additional or alternative elements should be included?

Yes, we agree with the specific requirements of the assessment. However, we note that these are quite broad concepts and we therefore urge the FCA to ensure that it issues specific rules and guidance on how AFMs should address these components. ShareAction has been reviewing the reports published by IGCs under similar rules and we have found mixed performance. We believe this is in part due to the lack of clear guidance on how IGCs should report on value for money.

Additional requirements –

Given the potential impact they have on value for money, particularly in relation to ensuring that investors' interests are put first, we believe that a requirement in relation to managing conflicts of interest should be included.

We are also concerned that the message from the FCA and the AFM boards should not be "lowest cost is always best". There are certain activities by AFMs which have value for investors and for the wider economy but which do impose a cost. These include practices in relation to responsible investment – investing that takes account of the long-term impact of environmental, social and governance factors. AFMs that follow RI practices, in theory, are looking at the long-term sustainability of their investment decisions, not only for their investor clients but also for the wider economy. This should not be discouraged by the FCA.

## Q4: Do you agree with the proposed requirement for the AFM to publish a report on the findings of the assessment and the steps taken?

Yes, transparency is important to help ensure that AFMs are accountable for their actions. We agree that the assessment should be on-going and that the reports should be at least annual. These reports should be written in a standardised form, to ensure that clients can compare across AFMs. The FCA should also mandate that they be published on the AFM's website within a certain short timeframe of being finalised. They should also be emailed to clients. This element of transparency is necessary to ensure that the reports are a mechanism for accountability.

In designing rules around the reports, the FCA and AFMs should work with experts in communicating complex financial information simply. We are concerned that AFMs may hide behind complexity in conveying this information, which would undermine transparency.

## Q5: Do you agree with our proposal to require AFMs to appoint independent directors to the board? If not, what alternative(s) would you propose?

Yes.

## Q6: Do you agree with the proposed proportion of independent directors (at least two and not less than 25% by number)?

No, we do not think the proposed proportion is sufficient. We would support the level being set at, at least, one third independent directors and ideally one half independent directors. We would suggest that the same principle be followed as for the UK Corporate Governance Code, which advises that measures are needed to ensure no individual or small group is side-lined. We are concerned that at the suggested proportion, the independent directors could be side-lined. One half independent directors would be in line with with-profit committees, which have a similar function.

## Q7: Do you agree with our approach that independent directors may serve on more than one board, provided that they comply with existing rules? If not, do you think a ban on serving on more than one board is necessary?

Yes, in principle we are not opposed to independent directors serving on more than one board. However, the AFM board and/or the director should be required to disclose publicly all their board appointments and to explain why this does not inhibit their independence. We also suggest that the FCA commits to reviewing the sector within a short timeframe, e.g. 3 years, to consider the size of the pool of independent directors, the overlap between boards and whether there needs to be a prohibition on serving on more than one or two boards. Overall, we think the sector and its clients would be better served by having a greater range of participants and that the FCA should seek to facilitate this.

## Q8: Do you agree with the proposed requirements for being an independent director? If not, what alternatives do you propose?

Yes.

## Q10: Do you agree that it should be up to AFMs to decide whether to appoint an independent director or an executive director as chair?

Yes, but in line with our response to Q.7 above, we believe the FCA should review market practice within, e.g. 3 years, to see what practice is emerging and whether it needs to mandate a certain arrangement.

## Q19: Would additional or alternative approaches be more appropriate or cost-effective for tackling the same issues? For example, would the independent governance committees set up by life insurers and used for workplace pensions be appropriate for other products as well?

We do not have a specific comment on the first question, but we have some reservations about whether the IGCs are working as well as they could be in the workplace pension sector. ShareAction is undertaking further research into this area and we would be pleased to share this with the FCA in the Autumn.

## Q21: What would the potential benefits be for consumers and firms of introducing any additional governance requirements for unit-linked funds and with-profits business?

Pension savers should have the protections of good governance regardless of where their money is invested, including unit-linked funds. Savers in DC contract-based schemes bear the investment risk, but have little control or visibility over how their money is invested. The governance structures for different investment vehicles should be equally robust.

## Q23: Do you agree with our proposed approach to pension products?

To the extent that this is to look at pensions as a separate issue, we support this.

We think that the FCA should review IGCs in depth soon, as was originally planned for 2017. ShareAction has been reviewing the IGCs' 2017 annual reviews and has found a wide variance of standards. The FCA should focus on this now, to set the standards before bad practice is embedded.

Yours faithfully

Bethan Livesey
Head of Policy & Research