THE INVESTMENT ASSOCIATION

VFM Policy Team
Financial Conduct Authority
12 Endeavour Square
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Sent by email to vfmconsultationpaper@fca.org.uk

17th October 2024

Dear VFM Policy Team,

RE: Investment Association response to CP24/16 The Value for Money Framework

The Investment Association (IA) welcomes the opportunity to respond to the FCA's consultation on rules introducing a Value for Money Framework in the FCA-regulated DC pensions sector. The competitive dynamics in the workplace DC pensions market have in recent years been heavily focused on price, resulting in a market where low cost is often conflated with value for money.

We have responded to some of the specific consultation questions below but also wish to emphasise a number of points as follows:

1. The shift to a focus on long-term value over cost is welcome, but realism is needed over what the Framework alone can achieve: We have long advocated for a shift in the market from a focus on cost to one of long-term value and are therefore supportive of the overall direction of travel encapsulated by the Framework. At the same time, we are realistic that we should not expect the Framework to be a silver bullet to achieve long-term behavioural change in the market, particularly given some of the design challenges emerging. Ongoing positive policymaker and regulatory messaging about the value of investment in DC provision is an essential part of the process.

In this respect, the overall emphasis should be on pension providers to design high quality, well-diversified strategies that balance potential for good outcomes with an appropriate level of cost. As the designers of these strategies, providers are best placed to assess the value they are delivering. This should include the ability to offer various default options at various price points. Some of the metrics in the Framework will also help in this regard, as will the public disclosures of asset allocation and past performance.

Further scrutiny on the role of Employee Benefit Consultants and Investment Consultants in scheme selection and investment strategy design decisions respectively, as well as making the Framework outputs available to end investors in pension schemes, may in turn better support employers in putting competitive pressure on providers to raise the value of their investment offerings. To this end, we encourage the FCA to work with HMT in expediting the inclusion of investment consultants within the regulatory perimeter, which has been an expectation since the CMA recommendations of 2018-19. We recognise that there are aspects of investment consultancy (e.g. the fiduciary arm) that are already covered by the existing regulatory regime. However, other activities remain unregulated – specifically advice on investment strategies and asset allocation. Bringing these activities within the regulatory perimeter will not only help address potential conflicts of interest but will also supplement the delivery of value for money by allowing the FCA to set out its expectations regarding the importance of long-term value being emphasised in investment advice to pension schemes.

Implementation of the Framework should be accompanied by guidance from regulators for trustees and IGCs that is designed to ensure that how value is assessed is clear, including on a forward-looking basis and not simply on past performance. To that end we acknowledge and support the FCA's proposal to consider the issue of future projections on a more holistic basis beyond the Framework's initial implementation, notwithstanding some of the challenges that could arise from the use of such projections.

2. Transparency of investment performance and process is a key part of assessing value: We are very supportive of the disclosure of the investment-focused metrics – past performance, risk measures and asset allocation – in the proposals. This is the best way to demonstrate whether past investment decisions have added value to members, and as such, provides a key measure of accountability for the design and implementation of DC investment strategies. We recommend strengthening the proposals in a number of areas, including showing performance for specific member cohorts rather than age cohorts (to better reflect the member experience) and also building on the performance disclosures that investment managers make under the GIPS framework.

3. Cross-scheme comparisons, the RAG rating process and the new business ban in combination will have significant detrimental consequences for market innovation: The first point of consideration on value assessment should be whether the scheme has delivered against the specific objectives set out for its own default strategy within the context of its own fees and other considerations specific to the scheme, not the comparison with other schemes which may have different objectives. We are therefore extremely concerned about the comparison elements of the proposals. Given the negative consequences of a red or amber rating based on comparisons against other schemes, we do not see any incentive for providers to innovate in their investment propositions. Indeed, the incentives work in the opposite direction, with providers best served by not standing out from one another. This is likely to lead to herding in investment strategies across the market and a lack of innovation in DC investment, not more.

The solution here is for the assessment of value to take place against a scheme's own stated objective with transparency and disclosure being the appropriate way to put pressure on providers to improve value.

4. There are lessons to be learned on value assessment from other parts of the market: The implementation of the Assessment of Value (AoV) regime for authorised investment funds five years ago, and the much more recent Consumer Duty Fair Value, provide valuable lessons which have potentially important ramifications for VfM in the DC pensions market. The funds industry sees AoV as particularly positive in its impact on governance and hence behaviours in an environment where reports are not widely read. It does not readily translate into consistent metrics or RAG ratings, and current proposals to introduce RAG ratings in the DC Framework should take account of this experience before potentially requiring comparisons and automatic actions stemming from a given period of assessment.

5. The FCA should consider potential rationalisation of value regimes in due course: We are heading for three distinct but closely-related UK regulatory regimes for assessing value across the retail investment and pensions markets: COLL AoV for investment funds, Consumer Duty Fair Value and DC pensions VfM. While all three processes had a distinct logic during their formulations, there is arguably a case for looking at how to bring these together in a more consistent and efficient way.

We have concerns around the interaction of these three frameworks and the ramification of different expectations that emerge. Simultaneously, we have fairly prescriptive requirements for COLL AoV; very prescriptive requirements in the new RAG ratings under the VfM framework; and for the Duty we have a broader outcomes-based approach. This serves as a good example of where the FCA could provide greater clarity and consideration of the intended direction of travel. It is important that any new regulatory requirements in the retail space are considered holistically, in the context of the wider applicable regulatory framework and the Duty in particular. Failure to do so will create confusion for consumers, who may fail to understand why a product provides value under one regime and does not according to another.

Equally, the varying system development costs also suggest care should be taken in considering these questions.

I hope this response is helpful and would be happy to discuss it further.

Yours sincerely

Imran Razvi
Senior Policy Adviser, Pensions & Institutional Market

Response to consultation

FCA CP24/16: THE VALUE FOR MONEY FRAMEWORK

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 49% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Response to selected consultation questions

Scope and thresholds

1. Do you agree with the proposed scope, thresholds and exclusions? Why or why not? If not, what alternatives would you suggest?

Yes, we agree that the scope should be limited to default arrangements (and quasi-default arrangements) in legacy schemes. It makes sense to target the VfM framework on where the majority of members are invested. Given the high membership rates, this is the default arrangement.

Investment performance

4. Do you agree with the proposed investment performance metrics? Why or why not? If not, what alternatives would you suggest?

We have previously set out our support for the development of backward-looking risk-adjusted investment performance metrics, because this is the best way to demonstrate whether past investment decisions have added value to members, and as such, are a key measure of accountability for the design and implementation of DC investment strategies.

We are therefore supportive of the metrics set out in this consultation, although we do have a number of comments:

- We encourage the FCA to build on the CFA Institute's widely adopted and respected Global Investment Performance Standards (GIPS)[1]. GIPS provides clients with standardised performance information and has successfully improved transparency of past performance data by eliminating survivorship biases, misrepresentations and historical data omissions. Clients understand that GIPS is an industry standard, and that in making a compliance claim with GIPS the investment manager is publicly saying that they comply with all the provisions of the standards. By standardising the calculation and presentation of investment performance, GIPS offers investors the ability to compare different managers and products on a like-for-like basis over time, free of any favourable presentation of the data. Firms' performance histories must comply with the requirements of GIPS in order to claim GIPS compliance.

[1] The latest version of GIPS is available at https://www.gipsstandards.org/wp-content/uploads/2021/03/2020_gips_standards_firms.pdf while an introduction to the standards can be found at https://www.gipsstandards.org/wp-content/uploads/2021/03/gips-product-info-package-brochure.pdf

- Since the gross return has limited relevance given it is not actually available to anyone, we recommend that performance is shown only on a net-of-charges basis and not gross. This would ensure that only the two decision-useful net return series were disclosed – returns net of investment charges (to assess vfm of investment) and returns net of all charges (to assess overall vfm of the member experience). This would reduce the number of required data points, to the benefit of both producers and consumers of the data.

- We have previously expressed our support for the disclosure of risk metrics, in particular Maximum Drawdown and Annualised Standard Deviation (ASD). However, while volatility and drawdown are a risk for DC accumulation strategies, they should be given less weight in the growth phase of a DC accumulation strategy. Since investors in the growth phase have time to recover any losses, for them the time to recovery is arguably a more important measure of risk than ASD or Maximum Drawdown. Indeed, there is a risk that if too much weight is placed on ASD or Maximum Drawdown earlier in the accumulation phase, it could lead to too little risk being taken, leading to poor outcomes for members. This could be mitigated by giving providers greater discretion over how they assess risk for younger investors rather than requiring them to publish ASD or maximum drawdown. At the point at which a scheme moves into a glide path/de-risking phase, capital volatility and drawdown become more appropriate risk measures of the investment strategy.

5. Do you agree with the proposed calculation methodology? Why or why not? If not, what alternative methodology would you suggest?

We would encourage the FCA to reconsider its current approach to disclose past performance by age cohort and instead focus on member cohorts (discussed at paragraph 4.13 of the consultation paper). This is because value for money should be assessed on the returns actually experienced by members rather than a return based on an age cohort which is only ever notional because no one ever experiences it. This is the approach taken by Target Date Funds, where performance is shown on a cohort basis for different TDF vintages.

6. Do you agree with the proposed requirement for chain-linking? Why or why not? If not, what would you propose?

We are in agreement with the general proposal for chain-linking where it reflects the historic member experience, thus providing accountability for past investment decisions. However, it only makes sense when looking at cohort-based returns, which reflect the performance experienced by members. If applied to the current proposal of age-based returns, we do not see what value chain-linking provides, since it will not be reflective of any member's experience.

8. Do you have further feedback in the incorporation of forward-looking metrics within the Framework? If included, how prescriptive do you think we should be on assumptions and methodology, and what would you propose?

We have previously stated our view that there may be merit in the use of forward-looking investment performance metrics since they can help provide insight into the thinking that drives asset allocation decisions, particularly where changes are made to investment strategies. DC schemes are likely to already be carrying out such analyses with their advisers and managers for internal objective-setting purposes, and disclosure is about making such analysis more transparent.

Combined with the past performance data it can show how a scheme's return expectations compare against what has been delivered, providing a further measure of accountability. This same comparison repeated over time will allow commentators to assess whether a scheme's return assumptions are consistently over-optimistic, thus reducing any incentive to over-inflate expected returns.

As buyers of commercial pension provision, employers may find it helpful in their decision-making to have some sort of assessment of what different scheme investment strategies are seeking to deliver.

However, there are a number of significant challenges to the use of forward-looking metrics, and they need to be designed with care:

- Some aspects of the potential future returns will be highly subjective. For example, the returns on active management of the strategy or underlying security selection. Whilst these could be excluded from consideration, it would make the utility of these numbers for value for money judgement highly questionable.

- There is a distinction between forecasts based on a snapshot of asset allocation at any one time and the actual journey that savers might experience. For example, metrics will likely be calculated based on what asset allocation is today at each point along the glidepath to retirement. However, this will likely evolve though time as new investment opportunities arise, as market best practice develops, and as how retirees access their savings changes. It would be misleading to present forward returns based on asset allocation that no member will ever fully experience.

- In a commercial and competitive market environment, and one whereby forward-looking return forecasts are published, providers could face pressure to design forecasts to strengthen their Value for Money assessment and commercial standing. Even if return forecasts (by asset class) where prescribed to pension providers, there is a risk that mapping to individual default arrangements would still be subject to bias and the optimization of results.

Given the already-significant implementation demands of the Framework, aligned with the additional challenges of introducing forward-looking metrics, we support the FCA's plans to address the question of forward-looking metrics on a more holistic basis in future. The caution here is warranted in light of the experience of the PRIIPs regulation, which, while well-intentioned, introduced misleading future performance scenarios. As the FCA develops its thinking in this area, it may be helpful to have a stakeholder group to consider how to ensure that the lessons of PRIIPs – and any other relevant previous experience – can be absorbed.

Asset allocation disclosures

9. Do you agree with the approach to asset allocation disclosures? Why or why not? If not, what would you suggest? Do you think asset allocation disclosures will support better decisions in the interests of savers?

We agree with the requirement to disclose default strategy asset allocation alongside investment performance metrics. This is because asset allocation decisions are a significant driver of returns and so the two pieces of information should be shown together to aid assessment of the value delivered by an investment strategy. While not part of the Framework, asset allocation disclosures could be used to aid performance attribution analysis for schemes and IGCs, as well as providing a simple snapshot in time that can be used to assess the types of investments accessed and how a scheme's investment fee budget is currently being deployed.

We are generally supportive both of the broad alignment with the asset class breakdown in DWP's disclosure requirements for trust-based schemes, as well as the further granularity within some asset classes proposed by the FCA. This latter point is especially helpful since it allows for the disclosure of sub-asset classes with differing risk and return characteristics. Two additional points to consider here are:

- Small-cap equity exposure could be considered as a further sub-asset class.

- For fixed income assets, a further split to show an instrument's duration – e.g. short, medium and long-dated – may be helpful, as the risk/return characteristics of bonds of different duration can vary considerably.

One area where we depart from the DWP approach is with respect to the categorisation of Real Estate Investment Trusts (REITs), where we believe there should be flexibility for a scheme to disclose the holding in the context of its investment strategy. In the DWP guidance, trustees must look through the ownership structure of the investment vehicle to the allocation of the underlying asset classes. Under this approach REITs would be treated as a property investment. However, where REITs operate as listed funds and if schemes or their investment managers are holding REITs as part of an equity portfolio, they may wish to assign these REIT holdings to listed equities. The point here is that either approach could be used, and schemes should have the discretion to choose.

We question the utility of the listed/unlisted and UK/non-UK splits for governance bodies and scheme members. These are more likely to be useful for policymakers, given the current political focus on increasing DC investment in UK assets, in particular in the private markets. Given these political objectives there is a risk that this data may be used inappropriately if policymakers form a view as to the 'appropriate' level of UK and unlisted allocations and direct schemes to invest accordingly. We note that any move in this direction would conflict with the fiduciary duty owed to scheme members. Equally, this level of granularity may also highlight the difficulties for schemes in meeting broader objectives on UK/private markets investment if it were to show material underperformance of UK and non-listed assets over a prolonged time period.

10. Do you agree that asset allocation disclosures should be limited to firm-designed in-scope arrangements only? Why or why not? If not, how would you broaden this requirement and to what arrangements?

It is not clear why bespoke default arrangements should be out of scope. Members of these schemes should have the same transparency over the asset allocation of their default arrangements and the arrangement's designers should be accountable for their asset allocation decisions.

For added context we note that bespoke default arrangements are somewhat widespread within the UK DC market. By excluding (or allowing lighter disclosure for) these single-employer defaults, a significant proportion of member investments would be uncovered by the Framework. Furthermore, IGCs are still duty-bound to adequately oversee these bespoke defaults, and the members invested within them. It is our view that all default strategies should be in scope, whether firm-designed or not.

11. Do you agree that we should require the disclosure of the overall asset allocation of the whole arrangement, as well as for the YTR points? Will this be of use to firms, and will it be an added burden to disclose?

While it would be most accurate to display the asset allocation that is responsible for the returns shown, in practice it may be more tractable to simply display the asset allocation over a default arrangement's lifetime. This would strike a balance between transparency and tractability, since disclosing asset allocation for every cohort would generate huge amounts of data, which would be both costly and impractical. The overall asset allocation of the default would be more useful than the current proposal of asset allocation disclosures for the YTR points, as it provides a sufficient degree of transparency at a proportionate level of resource.

12. Do you agree with the proposed definitions for UK assets? If not, what would you propose?

The definitions of UK assets look reasonable. An important point is to have consistency of such definitions across all parts of the UK pensions landscape if such disclosures are required from trust-based schemes in time.

13. Do you think we should break out 'Quoted but not listed' (eg AIM) and if so, how would that be useful? Would there be additional cost to doing this and can you indicate how much?

Notwithstanding our answer to question nine, the current level of granularity proposed – listed/unlisted – is sufficient if policymakers wish to go down the road of requiring schemes to further characterise their asset allocation in this manner. While there is always a degree of interest in having more granular information, we do not see how the member interest is served by further breaking down the listed/unlisted categories, especially if it results in additional costs from producing the information.

Costs and charges

14. Do you agree with the proposed costs and charges metrics? Why or why not? If not, what alternative metrics would you suggest?

Yes, we agree with separate disclosure of service costs, investment charges and total costs and charges. While total costs and charges are necessary for evaluating the member experience, considering the cost of investment separately from other costs in a pension product will allow for a better assessment of value for money of investment, as well as giving DC scheme decision-makers the tools to assess whether they believe they have an appropriate investment budget within the total cost of the product.

We agree with the definition of investment charges and are particularly pleased to see that our earlier feedback on the appropriate treatment of transaction costs – excluding them on the basis that they are already captured within the gross investment return – has been heard.

Disclosure of transaction costs and administration charges under COBS 19.8

With the nature of transaction costs better reflected in the proposed presentation of investment returns under the Framework, the FCA's suggestion, that elements of the COBS 19.8 rules on disclosure of transaction costs and administration charges to DC schemes could be disapplied, is a logical next step. We would encourage the DWP to consider the same in respect of trust-based pension schemes' own disclosure requirements on costs and charges, once the Framework is rolled out to the trust-based segment of the DC market.

We have long had concerns about the presentation of transaction costs in the absence of context around the performance delivered. Additionally, the 'Arrival Price' methodology for estimating implicit costs in COBS 19.8 has some significant flaws that mean these disclosures are confusing for investors. We note also that the COBS 19.8 rules are not well suited to capturing the transaction costs of private market investments, an increasingly important feature of the DC investment market not considered when the rules were written in 2017/18. We would be happy to discuss further with the FCA how the COBS 19.8 regime could be simplified to reflect the proposals in the Value for Money Framework.

Any review of the COBS 19.8 rules should also be carried out with the new retail investment disclosure framework in mind. We support consistency of cost and charge disclosure across the retail and institutional market.

The treatment of costs associated with investment trusts

Last month, the Government and FCA issued statements designed to give relief to investment trusts from cost disclosure rules inherited from the EU. Whilst this is a temporary measure, we urge the FCA to work with DWP in ensuring that the latter's 'Non-exhaustive list of costs and charges'[2] covered by the DC charge cap is reviewed and revisited prior to the effective date of the rules associated with the Value for Money Framework, to ensure that there is consistency regarding the treatment of charges associated with investment companies across various pieces of legislation.

17. Do you agree with the proposed approach to unbundling? Why or why not? If not, what alternative would you suggest?

We have previously set out our support for charge unbundling as we see this disclosure as being critical for providing fair, like-for-like comparison between investment arrangements, as well as increasing transparency into fees. Unbundling is consistent with the objective to emphasise value over cost, given that the investment budget is one of the key areas that has come under pressure in recent years from a market focus on lowest cost being the key driver of scheme selection decisions.

We agree with the methodology for unbundling set out in paragraphs 6.29 and 6.30 of the consultation paper. This seems a proportionate way to obtain the overall investment charge for a default arrangement.

Quality of services

21. For each of the five proposed indicators, do you agree with the proposed metrics for measuring these? If not, what metrics would you suggest? We would particularly welcome views on these metrics.

Although others are better placed to comment on the service metrics and indicators, we wish to point out that the indicator 'Savers can be confident that transactions are secure, prompt, and accurate' and the associated metric 'Promptness and accuracy of core financial transactions' need to function in a way that does not discourage allocations to illiquid investments. As currently framed, these could prove a barrier to such allocations, as illiquid strategies are unlikely to score highly on factors such as the investment of contributions and transfers between schemes and/or investment strategies.

Under the indicator 'Savers are supported to make plans and decisions for their retirement' there may be merit in including a measure of the percentage of members that have consumed information about the default. The benefit here would be that this measure becomes a proxy for capturing some degree of engagement by scheme members, contributing to an understanding that they are invested. It is critical that pension scheme members understand the value of investment over the longer term in order to ensure that they have a deeper understanding of options at retirement. This additional metric could help providers target communications about the default to help build member understanding.

Assessment and outcomes

22. Do you agree with our proposed conditions for the selection of comparator arrangements?

23. Do you agree with the assessment process we have outlined above? Do you have views on what should be considered a material difference in value relative to comparative arrangements? If you think that RAG ratings will not be sufficiently comparable, what refinements would you suggest?

[2] Annex F: Non-exhaustive list of costs and charges - GOV.UK (www.gov.uk)

Joint answer to Qs25 and 26

Ultimately, the RAG approach as set out is likely to reduce complex metrics to an overly simplistic rating system. It is also unclear how qualitative data can be incorporated into the rating system. As noted in our introductory comments above, the experience of the funds industry in the production of AoV is that while RAG ratings can be helpful as part of an overall governance process, using these for decision-making in the wider market is challenging, especially given the difficulties of standardisation. As such, it is important that the proposals to introduce RAG ratings in the DC Framework should take into account of this experience.

As we have also set out in our introductory comments above, as well as in previous rounds of policy development on the Framework, cross-scheme comparisons have to be undertaken extremely carefully. Given the diversity in investment objectives and the investment budgets allocated to delivering those objectives, combined with different overall cost bases for scheme delivery, market-wide comparisons and benchmarks are unlikely to drive the desired behaviours. The member return will differ because schemes have different overall cost bases and follow different investment strategies whose objectives, associated asset allocation and cost are different. Simply comparing one set of returns to another does not allow a judgement to be made that a better performing scheme delivers better value to one that performs worse.

Additionally, while the Framework has the laudable intention to nudge schemes to boost their investment budgets and broaden portfolio diversification, it is not clear how the RAG process would treat investment strategies that increase cost in an attempt to boost performance in the long-term. For private asset classes for example, higher costs will show up right away in the assessment, while enhanced performance can take some time to materialize (e.g. the j-curve concept on some private equity investments). If such decisions result in amber or red ratings, we do not see what incentive providers have to make them in the first place. Particularly when the consequences of a red or amber rating are so commercially negative.

Rather than seeking to drive market-wide comparisons, regulators should instead encourage schemes to assess their investment performance against investible benchmarks that are appropriate to the scheme's own strategy. By this we mean moving away from assessing the performance of default strategies solely against member-driven objectives such as CPI+X, towards the assessment of performance against benchmarks that can be invested in and have a tracking error, such as a simple market index-related benchmark (or a composite where the investment strategy is multi-asset).

The idea here is to distinguish between assessing performance against the overall member goal (is the CPI+X target being achieved?) versus assessing the value for money of schemes' investment decisions. The latter is achieved by measuring the investment strategy against a simple, low-cost alternative (what is the impact of the scheme's investment decisions relative to a simple, low-cost investment option?).

29. Do you agree that IGCs should consider and report on whether their firm's current scale may prevent it from offering value to savers? If not, what would you propose?

As we discussed in our recent response[3] to the Government's Call for Evidence on its ongoing Pensions Investment Review, while scale is a key enabler of efficiencies and investment diversification, it is important to appreciate that size alone will not set schemes up for investment success.

Scale can be used to deliver specific goals, such as more diverse capital allocation across private and public markets, accompanied by the tools necessary for success: notably, strong governance and oversight; accountability; investment expertise; and sophisticated procurement methods. We call this 'sophisticated scale' whereby scale can make success more likely, though it is not automatic, with the implementation of appropriate governance and delivery frameworks being a deliberate step that schemes must take. Equally, good outcomes can be achieved by smaller schemes depending on their specific configuration, for example

[3] Investing for Everyone's Future: A Response to the Pensions Investment Review – Call for Evidence, Investment Association, 2024

where they are managed by a scaled provider or have some other form of sophisticated governance in place.

While scale at the pension scheme level can take time to achieve, it can be accelerated through the use of both internal and external investment managers.

Our concern arises here because the focus on comparisons in relation to scale focus solely on size, neglecting the emphasis on the governance frameworks that drive the sophisticated scale we wish to see in the DC market. The risk here is that underlying investment behaviour in the DC market today does not change.

The focus on scale comparisons also risks sending a message that the regulator considers only large schemes to be capable of delivering value for money. This will lead to a highly concentrated and less competitive market if the emphasis on scale goes too far and significantly reduces the number of providers in the market. An associated risk in this event would be the concentration of assets with a relatively small number of providers, which, if in the event of a provider failure or market crisis, could have highly negative impacts on member outcomes.

We therefore do not support a public assessment of whether lack of scale prevents the delivery of value to members. In contrast, we do expect IGCs to raise with their providers any issues arising from poor investment governance arrangements that prevent access to a broad range of asset classes in the portfolios they monitor. This is independent of scale.

30. Do you agree that IGCs should consider how ESG considerations have been taken into account across firm-designed in-scope arrangements? Do you think this is sufficient and if not, what would you suggest?

As noted by the FCA, IGCs must already provide an independent consideration of a firm's policies on financial ESG considerations as well as non-financial matters and on stewardship. In line with our answer to Q10, we believe such scrutiny should also be applied to bespoke defaults The issue for the Framework is the extent to which any such assessments are made public and summarised in the form of metrics.

Given the increasing customer interest in sustainable and responsible investment, the Framework may in future benefit from incorporating sustainability considerations as part of the value for money assessment, with specific sustainability metrics likely to play a greater role over time. However, rather than this being something that is actively rolled out as part of the Framework to begin with, it could instead be a feature that develops over time, as appropriate sustainability metrics relevant to value for money are developed. This reflects the fast-evolving nature of ESG data and best practice, weak comparability between data providers, as well as the requirement for data to be published within other sources (such as TCFD Reports). As ESG data approaches mature, development of these metrics should form part of the wider discussion regarding the extension of SDR and the labelling regime to pension products.

Actions for arrangements offering poor value

32. Do you agree that firms should not be allowed to accept business from new employers into an arrangement rated amber or red? If not, why not and what would you suggest?

We do not agree with the proposed ban on new business. Combined with the RAG ratings process, this clearly poses a significant risk of unintended behaviour. In this case, with the consequences of a poor rating in a relative comparison being so high, we do not see any incentive for providers to innovate. Indeed, the incentives go the other way, with providers best served by not standing out from one another. This is likely to lead to herding in investment strategies across the market and a lack of innovation in DC investment, not more.

In addition, while we are opposed to the new business ban, there is a further inconsistency where if a pension scheme is deemed poor value, then it is not clear why new customers should be protected but existing customers are not. We recognise the FCA is trying to achieve a balance here and avoid a situation of mass-switching across the market, but the inconsistency here is further evidence, in our view, that the new business ban is flawed.

Again, we view the solution here as being about the assessment of value against a scheme's own stated objective with transparency and disclosure being the appropriate way to put pressure on providers to improve value.

Disclosure requirements

33. Do you agree with our proposals for how the Chair's annual reports should be expanded to include the results of VFM assessments? Are there any proposed elements that in practice would not be useful?

Public disclosure is a critical part of making the Framework function effectively. While we do not agree with the cross-scheme comparisons and RAG ratings process, the availability of data that shows how schemes are performing against their own investment objectives and broader cost and service metrics is important in promoting effective competition.

While we do not have strong views on how and where the Framework outputs are published, we expect that they will attract third party and retail customer attention that will help maintain competitive pressure in the workplace DC market. One point the FCA needs to be watchful of is how Framework data made available without context via machine readable templates is used, and the potential for it to drive suboptimal behaviour. For example, the possibility of framework data being presented out of context (e.g. one year performance numbers in a social media context) which might persuade pension scheme members to switch funds. While making such use of Framework data a regulated activity may be infeasible and disproportionate, it does highlight the risks of data being publicly available without appropriate context.

Future development

46. We invite views on the roll-out, evolution and future phases of the framework, over what time periods, and on the correct sequencing of these developments.

As with any new regulation, it is important to consider its impact and assess whether it is resulting in the desired change in behaviours and/or market outcomes. Before committing to further development of the Value for Money framework, we would encourage regulators to assess whether the Framework is contributing to a focus on value over costs, or if the public disclosure of costs is actually exacerbating the current issue in the DC market. Furthermore, we would see failure if the market demonstrates increased commonality in investment offerings, less diversification and narrow dispersion of returns.

Possible future application to decumulation

We have some initial comments on the possible future application of the Framework to decumulation products. While no formal plans have been announced in this regard, it is inevitable that the focus on value will shift to decumulation as the DC market matures. With the right framework, it is right that it should.

In that regard, the Framework metrics would require significant change if applied to decumulation products, particularly those that focus on investing for income in retirement. We intend to set out our thinking in more detail later this year in a paper on the retirement income market. However, at this stage we note that:

- Retirement investing is primarily about the delivery of a stable income stream. At a minimum, value for money in retirement will need some metrics focused on income and stability of income.

- Further work is needed to define the most appropriate definition of risk in retirement investing. While volatility of capital is a consideration in decumulation, the stability of income is the key metric of success. Capital drawdowns only impact a decumulation strategy if it impacts either the amount of income paid or increases the risk of running out of money.

- We have already set out our concerns with the Framework proposals for cross-scheme comparisons, which are likely to reduce the incentive to innovate and so increase herding risk. Cross-scheme comparisons are even less useful in retirement where there is much greater heterogeneity between individual needs. Value in retirement investing is far better judged by focusing on customer objectives and assessing how far a particular product is meeting them.

- The proposed service metrics are more focused on actions in the accumulation phase. A more retirement-focused set of service quality metrics is likely to be necessary.

We therefore recommend that should the FCA choose in future to implement a Value for Money Framework for decumulation, that a more explicitly retirement-focused set of metrics is developed.