THE INVESTMENT ASSOCIATION

THE INVESTMENT ASSOCIATION

ENHANCED DISCLOSURE OF CHARGES AND TRANSACTION COSTS

TECHNICAL CONSULTATION

March 2017

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Mark Fawcett (Chair)	National Employment Savings Trust
Andy Agathangelou	Transparency Task Force
Yvonne Braun	The Association of British Insurers
Richard Butcher	PTL Independent Trustees
Teresa Fritz	The Financial Services Consumer Panel[1]
David Hare	Phoenix Life Independent Governance Committee
Chris Hitchen	RPMI Railpen
Jeff Houston	The Local Government Association
Thomas Mercier	DB Council, The Pensions & Lifetime Savings Association
Alex Pocock	The Society of Pension Professionals
Graham Vidler	The Pensions & Lifetime Savings Association
David Will	The Society of Pension Professionals

While the final output is entirely the responsibility of the IA, the Board has helped the IA reach a position whereby the IA is confident that the outputs of this Code will fulfil the requirements of the asset management industry's clients.

The IA would also like to thank Dr Chris Sier, Professor of Practice at Newcastle University Business School and Jeff Houston, Head of Pensions at the Local Government Association for their collaboration with us, on behalf of the Local Government Pension Scheme Advisory Board, on the development of a common disclosure template for use in the LGPS Code of Transparency. This collaboration will enable the needs of a key client group of the asset management industry to be met in a manner which is consistent with the broader direction of regulatory travel.

[1] The Financial Services Consumer Panel joined the Advisory Board as an expert contributor.

FOREWORD

Investing other people's money comes with both responsibility and a need for accountability. The asset management industry delivers successfully for millions of customers, in the UK and across the world. It also recognises the need to provide a clearer explanation of the costs associated with delivering investment returns.

This consultation marks a significant step forward. We set out a blueprint for the reporting of charges and transaction costs that aims to provide a new framework for use across the market, as well as presenting an opportunity for industry practise and regulation to work together so investors are able to access information that is consistent and comparable.

The Code is, above all, a way of ensuring that the right data is available through the delivery chain:

- It will help those charged with pension scheme oversight, notably trustees and Independent Governance Committees, to access and scrutinise investment costs within a clear framework.

- It will provide those with responsibilities for building frontline consumer disclosure, particularly distributors, with the underlying data necessary to do so in a way that is compatible with MiFID II and PRIIP KID Regulation.

- It will facilitate efficient systems build within the asset management industry to ensure consistency that will assist firms as well as their clients.

The industry would like to further develop this work with regulators, Government and consumer bodies to explore how the data can be turned into consumer-friendly information. The experience to date with the PRIIP Key Information Document is a timely illustration of how positive intentions with regard to comparability can result in significant complexity. Regulators and industry have a responsibility to do better.

This Code will help that conversation to happen, providing meaningful and reliable underlying data. This can inform the discussion about presentation, including how narrative as well as metrics can help better explain the investment process. We believe the FCA's asset management market study offers an important opportunity to move forward here. The DWP is also under a legislative obligation to do further work on disclosure for pension savers. Here again, the Code will facilitate the availability of underlying data for that process.

Finally, it cannot and should not be the intention of the industry to impose a framework on its clients. For that reason, we established an Independent Advisory Board bringing together a wide range of organisations and disciplines. I am particularly grateful to the Board and its chair, Mark Fawcett, for their work to date. I am hopeful that our open public consultation on the work will see it evolve further to meet expectations.

Regulators set frameworks, sometimes in great detail. With good reason, they often look to dialogue between industry and clients to take forward practical and ongoing application. I

would encourage all stakeholders to engage with this consultation in that spirit. We look forward to your input.

Chris Cummings, Chief Executive, The Investment Association

INTRODUCTION – WHY A NEW DISCLOSURE CODE?

The goal of the Code is to develop a consistent and comprehensive framework that will allow fund and asset managers to deliver underlying charges and transaction cost information using standard definitions, regardless of the distribution channel and the way in which this information will eventually be presented to clients.

The asset management industry has undertaken initiatives over a number of years to increase the transparency of fees and costs in what remains a fragmented disclosure environment. Some of this fragmentation is a consequence of regulatory differences, both at UK and EU level. Some reflects the diversity of products, and distribution channels, by which investment services are delivered across the market.

Changing regulation, as well as increasing client and policymaker expectations of accountability, present an opportunity to build a new framework that will provide consistently defined information on the fund management fees and associated third party transaction costs in delivering investment returns. With the publication of its draft rules on transaction cost disclosure to workplace pension schemes (CP16/30) offering a clear way forward with respect to the items that should be disclosed, the FCA has set out its expectations and this Code is intended to meet the final rules definitively, together with those of new European regulation.

The broader aim of the Disclosure Code is to promote accountability of asset managers to their clients through enhanced transparency and to facilitate a full understanding by clients of all the charges and costs incurred in the investment of their monies.

The IA hopes that readers of this consultation document and the accompanying Disclosure Code will be able to observe that the accuracy and comprehensiveness of our proposed approach has been designed with complete cost accountability at the centre. The IA believes this approach will deliver enhanced confidence in the industry's accountability to the wider investing public.

Opportunity for market-wide framework

The IA has been clear that it intended to develop this new framework in dialogue with client groups and regulators, but different (and evolving) regulatory timetables have partly determined the pace of progress. Both regulators and industry have been keen to join together EU as well as UK requirements for the benefit of customers and firms.

The regulatory context involves a series of overlapping UK and EU requirements, notably:

- MiFID II (aggregation of charges and costs in client disclosures; disclosure around best execution and use of dealing commission).
- The introduction of the PRIIP Key Information Document (KID).
- UK DC workplace pension scheme reporting requirements set out by the FCA.

While the end presentation of data under these regulations will look different in each case, at their core is a common focus on investment charges and, more particularly, on transaction costs. MiFID II adds a wider focus on disclosures related to transaction costs in the form of new disclosure requirements on best execution and the costs of investment research. Although Brexit will obviously change the nature of the future relationship of the UK with the EU, EU regulation will continue to play a significant role for the foreseeable future.

The industry believes that having a consistent disclosure mechanism that can accommodate as far as possible UK and EU requirements in a single approach works to the benefit of both client and the industry itself. For clients, it will be possible to compare across different managers and products using a common set of definitions and terminology. For industry, there is a benefit of avoiding reporting system proliferation and potentially inconsistent reporting across different product lines.

The intention behind the Code is also to go beyond product charge and transaction cost information to provide data on areas such as portfolio turnover, which can help provide more of a context for such information. It is also covers best execution policies and use of dealing commission under new MiFID II requirements.

Timing

Some aspects of EU legislation remain unclear at the time of publication of this consultation. Equally, the pensions and investment industries do not yet have final clarity from the FCA on transaction cost reporting requirements for DC workplace pension schemes, partly the IA understands because of a regulatory desire for consistency of approach between UK and EU legislation where possible. The IA supports consistency, while recognising that Brexit may lead to divergent approaches in the longer term. Clarity of reporting is partly about minimising the proliferation of different approaches.

However, the IA believes enough is now known about the regulatory direction of travel to move ahead with a proposed new framework. The IA is keen to ensure that trustees and IGCs are able to discharge their responsibilities with respect to obtaining and reporting against transaction costs incurred through the investment process. The IA is also keen to support client-led initiatives for enhanced reporting, notably the work by the Local Government Pension Scheme Advisory Board (SAB). The SAB is already using the templates set out in this consultation, but has indicated a desire for further evolution on an industry-wide basis where possible.

Finally, whilst the IA recognises that the ongoing FCA market study of the asset management industry may result in further changes to charge and transaction cost reporting, the timelines for such change are unclear at this time. Whatever the FCA ultimately decides about the reporting of charges and transaction costs, firms will still in the near term be subject to expectations of enhanced transaction cost reporting under forthcoming UK and EU regulation. The FCA is aware of the IA's proposed consultation timetable and has previously signalled its support for the initiative in its asset management market study interim report.

Status of the Code

The asset management industry is fully committed to enhancing transparency. IA members have assisted the IA's technical work in producing this Code and have supported the work at all stages. The IA believes the Code in its entirety – the templates and wider disclosures – offers managers the best way to meet their disclosure obligations under UK and European regulations and it will advise its member firms to comply with the Code in full.

The FCA has recognised the existing Pension Fund Disclosure Code[2] in relation to disclosure requirements under their rules concerning the use of dealing commissions (COBS 11.6.17). The ambition for this Code is that it will receive similar regulatory recognition in the relevant sections of the FCA rulebook and the IA will be discussing this with the FCA following the publication of our finalised Code.

Scope

The IA supports comprehensive disclosure of all the charges and costs faced by clients. This Code is designed to be comprehensive in respect of asset management. It can be used directly by institutional clients to assess services delivered and will provide the underlying data to provide full cost accountability of provision of pensions, ISAs and other investment-based insurance and savings products. These products come with their own fees and charges, which include:

- Retail investment distribution costs (e.g. platform and advice fees)
- Product charges on non-pensions insurance-wrapped investment products
- The costs associated with the provision of pensions, both on a bundled and unbundled basis. These include the costs of: governance; legal, investment and actuarial advice; administration and communications.

Asset management can be thought of as the engine inside these products that generates the growth that helps investors meet their savings goals.

Consumer-facing disclosure will be generated based on the data provided in this Code. However, other than for sophisticated investors who have an interest in the data directly, the Code is not intended as a front-line disclosure document. Such disclosure needs to be simpler and more accessible. The IA notes that the Department for Work and Pensions (DWP) will be considering how best to disclose charges and costs to pension scheme members as part of requirements under Pensions Act 2014. The IA looks forward to further dialogue with Government, regulators and clients in this area. As part of the FCA market study, industry and regulators are also considering wider aspects of communication around the investment process.

In this context, the Code is above all a mechanism to provide underlying information to allow anyone responsible for consumer disclosure to be able to access consistent data on which to run their delivery engine, whether a front line consumer document or an institutional report of the kind being developed for Independent Governance Committees and pension fund trustees.

Finally, it is always important to present costs in the context of outcomes. For this reason the Code includes disclosure of headline performance figures, and other contextual information, to facilitate a proper understanding of the charges and transaction costs incurred. However, the primary purpose of the Code is the reporting of costs and we

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[2] Pension Fund Disclosure Code, Investment Management Association, 2007

expect existing more detailed reporting of performance to clients to continue alongside the Code.

Consultation

This document is in two main parts. Part One sets out the context for the Code, providing also some more detail about the development process. Part Two sets out the text of the new Code, which is the subject of this consultation. Respondents should note that this consultation is taking place at a time when two major UK regulatory initiatives are still in progress: The FCA's transaction cost disclosure proposals for the UK DC workplace pensions market, and the asset management market study. The latter, in particular, may result in outcomes relating to charging structures and disclosure that may affect the future shape of the proposed Code that the IA sets out. Any final document will need to take into account decisions taken by the FCA.

In discussion with the FCA, the IA believes that the existing direction of travel with respect to core disclosure, particularly transaction costs, is sufficiently clear to justify a consultation at this stage about the overall framework. Waiting until the market study process is complete risks delaying considerably the emergence of a new framework.

The questions below are designed to avoid a consultation process that is perceived as onerous and excessively technical. However, the IA would welcome comments and contributions from all interested parties about any of the material discussed, including the technical issues. Respondents should note the discussion in Part One, which sets out some more detailed areas of consideration (p.17-18), particularly with respect to question four and the issue of proportionality.

The IA would be particularly interested in hearing from the clients of the asset management industry as to whether the recommended disclosures in this document aid them in their decision-making when setting and reviewing investment strategies.

Q1: Will the information contained in the templates along with the associated disclosures in Part IV of the Code provide pension scheme trustees and IGCs with the cost information they need to facilitate 'value for money' judgements?

Q2: Does the information in the Code provide MiFID distributors with the information they need to meet their cost disclosure obligations to clients?

Q3: Does the information in the Code provide PRIIP manufacturers with the cost information necessary to create the KID?

Q4: Is the approach within the template proportionate? Should there be further granularity in relation to asset classes and implicit costs?

Q6. Are there specific areas of cost disclosure that require additional consideration?

Q7: What would be the best framework for ongoing development and maintenance of the Code?

Comments should be sent to the IA at **disclosureinfo@theia.org**. Unless you indicate otherwise, the IA would also like to make the responses directly available to the Independent Advisory Board.

Deadline for responses: **Close on Friday 19 May 2017**

Next steps

Following the end of this consultation, the IA will review all feedback before publishing a feedback statement and a final set of proposals in Q3 2017. Subject to adaptation to any further evolution of FCA disclosure requirements, the IA will be proposing to the FCA that this is recognised in its COBS rules. The timing is designed to be as closely aligned as possible with the final rules for DC workplace pensions and the implementation process for PRIIPs and MiFID II.

During the consultation period, the IA will also be discussing with regulators and the Advisory Board how to put in place an ongoing governance structure that allows industry, client groups and regulators to monitor its success and identify areas for further evolution over time. The IA would welcome feedback on this as part of the consultation.

PART ONE: CONSULTATION BACKGROUND

Adapting to a new regulatory environment

The IA's new Code is focused on providing clear information on charges and costs in the context of three regulatory streams, two European (MiFID II, PRIIPs) and one UK (FCA CP16/30 which sets out draft rules for transaction cost disclosure to workplace DC pension schemes). All overlap in requirements, but operate to distinct timelines and ultimate reporting specifications (see summary in Figure 1). They are ambitious in scope and offer an opportunity for the industry to help regulators join up across the disclosure landscape:

- Independent governance committees (IGCs) and trustees of Defined Contribution workplace pensions have been required since April 2015 to seek to obtain information on charges and transaction costs and explain the extent to which they offer good value for members. In October 2016 the FCA published proposals[3] to place a corresponding obligation on asset managers to provide this information to trustees and insurers and to standardise the methodologies for calculating transaction costs.
- Providers offering packaged retail and insurance-based investment products (PRIIPs) to retail clients will be required from the start of 2018[4] to provide key information documents (KIDs) containing information on all costs and charges and the possible effect they might have on the client's investment in the product. Fund managers of UCITS and NURS are exempt from these requirements until the end of 2019.
- Distributors and advisors providing services under the recast Markets in Financial Instruments Directive (MiFID II) will be required to provide information about the costs and charges within the funds they offer to their clients from the start of 2018.
- Similarly MiFID-regulated asset managers will be required to provide information about the costs and charges incurred in respect of the portfolios they manage both for their retail and professional clients. MiFID II is also bringing about major changes to the way in which research payments operate, and to the disclosure of best execution policies.

The IA also notes that the Pensions Regulator (tPR) has issued a series of guides to help trustees meet their obligations including in their assessment of value for members. The Guide to Value for members[5] recommends that trustees identify and collect charges and transaction costs and break down bundled costs into their component parts. In particular, the guide recommends separating transaction costs into those known with certainty (e.g. transaction tax), those known with a reasonable degree of accuracy (e.g. spread costs) and those which have been estimated (e.g. market impact).

Moreover, the Local Government Pension Scheme Advisory Board (SAB) has undertaken its own initiative on cost identification, due to be launched in the first half of 2017 with reporting due from 2017/18, and it is expected that this will be incorporated into the procurement process of the Local Government Pension Scheme (LGPS). The IA has been closely involved in working with the SAB to facilitate this work in a way that will be consistent with the wider direction of UK and European regulation.

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[3] CP16/30 Transaction cost disclosure in workplace pensions. The consultation ran until 4 January 2017 and the final policy statement is expected in the second quarter of 2017.

[4] http://europa.eu/rapid/press-release_IP-16-3632_en.htm

[5] Guide to Value for members (July 2016) issued by the Pensions Regulator.

Figure 1: Asset Manager Reporting Obligations

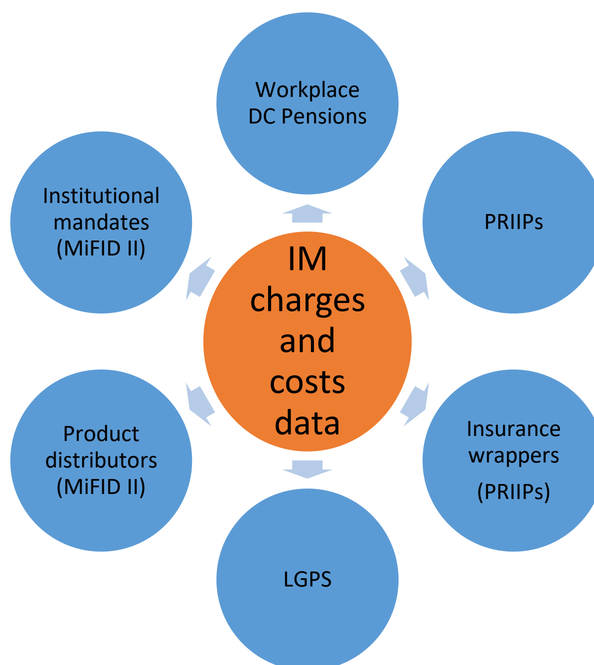
	Workplace DC pension schemes	**Institutional asset management and product distribution (i.e. not product regulation)**	**Retail investment products**
Source	UK: CP16/30	EU: MiFID II	EU: PRIIP KID
Implementation Date	Final rules expected Q2 2017	3 Jan. 2018	1 Jan. 2018 Retail investment funds out of scope until 31 Dec. 2019
Product charges	Managers must report product charges	**Aggregation** of one-off, ongoing, contingent and transaction costs. **Breakdown available on request**	**Aggregation** and **summary indicators** of one-off, ongoing, contingent and transaction costs.
Transaction costs	Policy intent to provide granular information on **explicit and implicit costs**.	Included in aggregation. Breakdown on request.	Summary indicator and included in aggregation. **Explicit and implicit costs.**
Distribution Costs	Out of scope	**Aggregation** of distribution, product and transaction costs. Breakdown on request.	Out of scope.

Universal reporting framework

The IA, in dialogue with Government, regulators and client groups, believes that it is possible, and necessary, to shape a universal reporting framework that can adapt to the final detailed requirements, rather than incur further delays in moving forward.

The framework presented in subsequent parts of the Code aims to provide a consistent data engine for the purposes of regulatory and client-driven reporting (see Figure 2).

Figure 2: A common data engine to support consistent disclosure

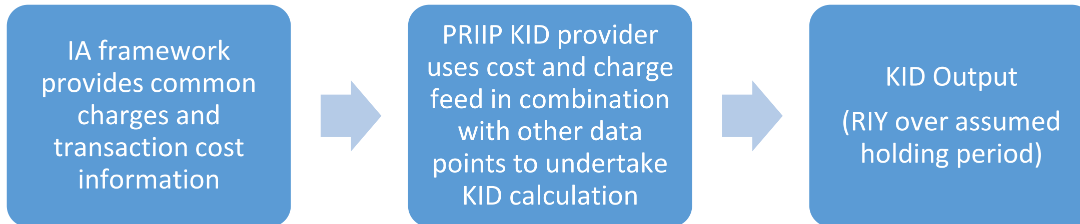


The output of this will vary considerably according to the client and their ultimate reporting processes. Below are a few examples of how this might operate in practice:

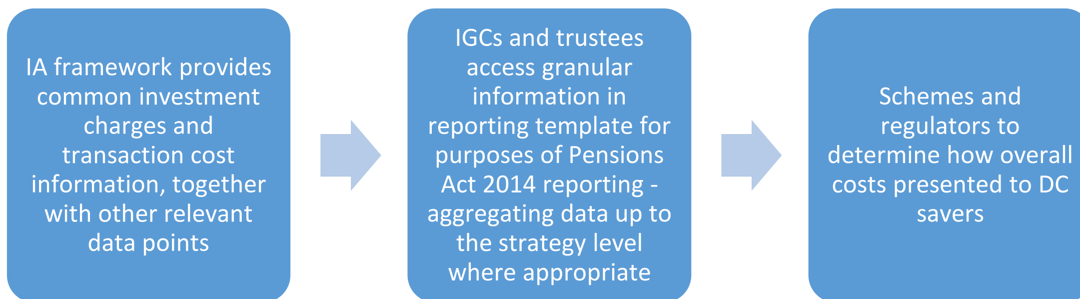
- Example A shows how charges and costs will be the building block for a reduction in yield-based reporting framework demanded by the PRIIP KID regulation.
- Example B shows how DC scheme decision-makers and oversight bodies will gain access to information that they need both for the purposes of regulatory reporting, but also potentially to present to DC savers in a more accessible format.
- Example C shows how MiFID distributors will be able to obtain data from asset managers for onward reporting to their clients, aggregating all costs and charges into a single number.

The key point in all three examples is that this Code is not the end consumer touch point, but the underlying provision point for consistent, complete and well-defined data.

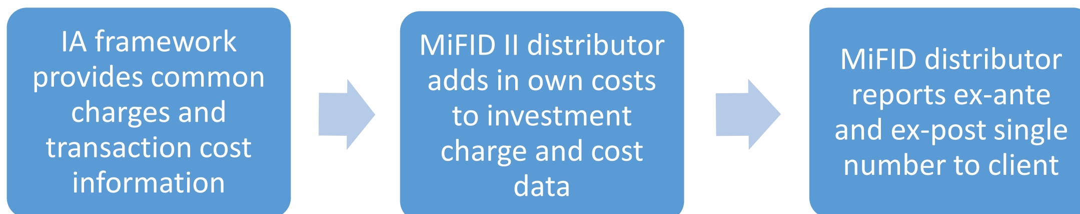
Example A: PRIIPs Disclosure in insurance wrapper



Example B: IGC / DC trustee reporting in UK



Example C: MiFID II client reporting via distributors



Areas of regulatory uncertainty

While the precise shape of some of the requirements, both by regulators and distributors, under MiFID II and PRIIPs are still the subject of discussion, core areas are known and disclosure can be planned for:

- Product / service charges, based on the Ongoing Charges Figure (OCF) for pooled vehicles, whether investment funds or other funds such as unit-linked insurance vehicles.

- Explicit transaction costs, covering brokerage fees and transaction taxes.

- Portfolio Turnover – although the FCA has not specified the precise measure in its draft rules for transaction cost disclosure to DC pension schemes, the IA has developed a proposal as part of this Code.

The area that remains challenging is around what is meant by implicit costs. Both European and UK regulators have proposed a methodology based on showing costs to be the difference between a benchmark price and the execution price achieved. The IA is concerned about this methodology because in its view it conflates the economic value transfer from the investor to the sell-side arising from the spread with general movements in the price of a given security. The result is that what is reported as 'costs' are essentially the impact of price movements which can be excessively[6] large in nature (large enough even to outweigh the management fee) and negative (if the market price moves in the trader's favour). This is likely to be very challenging for clients to interpret when trying to assess costs in the context of value for money.

Our preferred baseline reporting approach is to calculate implicit costs based on the market spread. Ahead of the regulation being settled in this area, the IA proposes the reporting of implicit costs to be on an evolutionary, best-efforts basis, moving to the measure ultimately defined by regulators as the relevant regulations come into effect.

FCA asset management market study

On 18th November 2016 the FCA published the interim findings of its asset management market study. The report noted that greater transparency would benefit the clients of the asset management industry by increasing their ability to drive competition between asset managers. In that regard it noted existing regulatory activity in this area as well as the work the IA is doing in creating this Disclosure Code. The IA is grateful to the FCA for recognising this work and indicating that it supports the industry working in concert with its clients to develop enhanced and meaningful disclosure of asset management charges and costs.

The IA believes that this Code gives form to the disclosure requirements set out in CP16/30 and would like to work with the FCA to ensure that it meets the expectations of enhanced disclosure that the FCA has articulated in the market study interim report. The IA's ambition is to have this Code written into the FCA's COBS rules – as with the existing Pension Fund Disclosure Code which enables firms to meet their disclosure requirements under COBS rules on the use of dealing commission.

The IA believes this is the best way of providing a mechanism for firms to meet both the spirit and letter of the regulation, while providing meaningful disclosure to all clients, retail and institutional.

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[6] In the sense that they significantly exceed total expected transaction costs based on IA members' disclosures of historical portfolio transaction costs in line with the IA's 2012 disclosure guidance.

IA process

The draft Code is the result of an iterative development process involving the IA and its membership, along with advice and challenge from the Independent Advisory Board. It has also been developed through direct interaction with client groups, notably the LGPS Advisory Board, which is represented on the main Independent Advisory Board. A version of the template at the heart of the Code was first presented by the Financial Services Consumer Panel in 2016[7], based on the work of Dr Chris Sier[8], who has also been closely involved in the LGPS work.

Working with the Board and other stakeholders, the new Code draws on previous IA work in a number of ways:[9]

- Presenting transaction costs alongside product charges, providing granularity at the level of both explicit transaction costs (brokerage fees and taxes) and implicit transaction costs (in line with 2012 Enhanced Disclosure Guidance).

- Includes a measure of portfolio turnover, and associated methodology (in line with the IA's 2015 Position Paper 'Meaningful disclosure of costs and charges').

- Includes information on stock lending revenues (in line with approach in 2010 and 2014 SORP).

- Includes provision for disclosure on wider transaction cost and reporting issues, notably best execution policy and use of dealing commission (in line with approach taken in the Pension Fund Disclosure Code, adapted for MiFID II).

The evolving reporting template, together with other aspects of the Code which collectively provide a complete description of the costs and efficiency of the investment process, have been presented to the Independent Advisory Board for scrutiny and discussion and the results presented here reflect the input of the Board. Further details of the Board's discussions with the IA can be found in the minutes of meetings held between the IA and the Board, available on the Board's website.

While the Board's views have been reflected in a number of areas, the IA is responsible for the final output described in this document.

Granularity of reporting

The template provides a baseline for both pooled and segregated reporting that attempts to combine a significant level of detail within a proportionate, standardised framework. There may well be additional detail about aspects of the investment process and associated costs that clients may wish to discuss with managers, including transaction cost analysis (TCA) where the IA has recently completed a new paper[10] in conjunction with FIX.

In the course of discussions with the Advisory Board about the shape of the core template, three sets of issues were raised:

- Detailed asset class reporting. The templates presented in the draft Code provide for reporting on a broad asset class basis. The IA recognises that further granularity within asset classes (including derivatives, where used) may be required in some cases because the costs of accessing markets varies considerably even within the

[7] Discussion Paper: Investment costs and charges – where are we now? FSCP, March 2016

[8] The Drive towards Cost Transparency in UK Pension Funds, Dr Christopher Sier, March 2016

[9] For further background see p 18-19.

[10] See 'Chapter 5: Defining a Framework for Comparative Analysis' in 'Transaction Cost Analysis Best Practices for Equities', IA/FIX, February 2017.

same asset class. For example, emerging market corporate bonds will be more expensive to access than high quality developed world sovereign bonds. The Code, as currently drafted, takes a broad approach across a fund or mandate.

- Fund of funds: transaction costs and Portfolio Turnover Rate (PTR). Aggregate reporting will pick up all transaction costs in a given strategy. While it would be possible to construct a composite PTR on an asset-weighted basis, the more funds there are in the structure the more approximate the measure becomes, and the more challenging it is to meaningfully interpret. For example, in a multi-asset fund, an aggregate PTR may tell the client little about some of the most important decision-making: the asset allocation. The IA does not propose to create a composite PTR.

  Areas of cost that may be outside mainstream services. The Advisory Board raised the question of whether there were more unusual cost lines that needed to be accommodated in the core template. The main example was financing costs, which may arise in some very specific circumstances, notably commitment fees for any loan facilities or costs in repo transactions in Liability Driven Investment (LDI) transactions (see Glossary). The IA takes the view that while all costs should be disclosed, it also needs to ensure that the template remains proportionate and manageable in scope. In this regard, the IA would propose that more unusual and infrequent cost items are clearly specified under the 'other transaction cost' rubric.

Status of previous initiatives

The IMA first produced the Pension Fund Disclosure Code in 2002 (updated in 2005 and again in 2007 for MiFID) with the objective of promoting accountability of fund managers to their clients through increased transparency and to assist pension fund trustees' understanding of the charges and costs levied on pension fund assets for which they have responsibility. In 2008, the Code was replicated for depositaries and corporate trustees providing oversight for authorised investment funds.

The new Disclosure Code will replace the Pension Fund Disclosure Code and the CIS Disclosure Code.

In 2012, the IMA published its enhanced disclosure of fund charges and costs guidance which recommended that firms make enhanced disclosures readily accessible in marketing material and on websites, including:

- Disclosing the Ongoing Charges Figure (OCF) instead of the Annual Management Charge (AMC) as the former gives investors the most complete picture of charges deducted from the fund.
- Providing explanations of the types of charges and their purpose.
- Disclosing figures for broker commissions and transfer taxes as percentages of the fund value.

- Disclosing the average dealing spread on the underlying portfolio.
- Providing explanations that for some types of investment the transaction costs form part of the dealing spread.
- Providing an explanation of the pricing policy and how effective the policy is for mitigating transaction costs arising from investor inflows or outflows.

The enhanced disclosure guidance will be reviewed and amended to reflect the final form of the new Disclosure Code.

In 2014 the IMA published the 2014 edition of the SORP which became effective for periods commencing on or after 1st January 2015. This new SORP included a number of new transparency requirements for inclusion in the Reports and Accounts of Authorised Funds:

- An analysis by asset class of direct transaction costs.
- A figure for the average portfolio dealing spread.
- An explanation of where there are indirect transaction costs or transaction costs incurred by underlying funds.
- A new comparative table for each class of unit showing the financial highlights for the year in monetary and percentage terms.

The SORP will continue to evolve, with fund Reports and Accounts remaining an important source of accountability.

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I: SCOPE AND STRUCTURE OF THE CODE

The scope of this Code is wide-ranging in nature, spanning products and services offered to the industry's entire client base. Both retail and institutional products are covered along with all types of delivery structure, including the investment components of unit-linked life insurance vehicles.

This wide-ranging scope means that the audience for this information will extend both to clients and to those acting on their behalf, to include:

- UK pension fund trustees and Independent Governance Committees
- Other institutional investors
- Insurers as unit-linked product providers
- Investment fund trustees and depositaries
- MiFID distributors
- PRIIP manufacturers

The Code is therefore designed to be adopted by any asset manager providing segregated mandates or pooled vehicles to UK clients. The precise scope is specified in Part III of the Code.

The Code consists of a mixture of firm or product level disclosure and client specific disclosure:

- Client-specific information should be provided in segregated mandates on the core costs, charges and performance data as well as for Research Payment Accounts where applicable. In the case of pooled funds, the manager will report the fund level experience. This is done via a set of standardised reporting templates presented in Part III of the Code.

- MiFID II Best Execution requirements should apply at the firm level and are designed to show clients how their managers achieve Best Execution on their behalf.

- Pricing policies in pooled funds by definition apply at the fund level and are designed to explain to pooled fund investors how dilution caused by entering and exiting investors is mitigated.

Taken together these disclosures will provide a complete description of the costs and efficiency of the investment process.

The Code envisages that at a minimum the frequency of client reporting will be annual. However, where the client requests the provision of more frequent information, this will be for managers to agree with the client.

This Code supersedes the 2007 edition of the Pension Fund Disclosure Code and its investment fund counterpart, the CIS Disclosure Code. Those codes had a much more specific focus, being primarily designed to provide pension and investment fund trustees with information on how their asset managers made choices between trading counterparties and venues, how the resulting commission spend was built up and what services were met out of commission spend. The 2007 (latest) version of the Code also complied with MiFID requirements to supply clients with information on the asset manager's order execution policy.

Structure of the Code

Part III of the Code sets out core standardised reporting templates to the following areas:

- Management fees (paid to the asset or fund management company, and other service providers, for delivery of a given service)
- Investment transaction costs (necessarily incurred in delivering the service), including both explicit and implicit costs
- Securities lending revenues and costs
- Contextual information such as performance, trading volumes and turnover

The templates are complemented by more detailed reporting approaches in specific areas, outlined in Part IV. Some of this information may be reported across different media and information systems (e.g. firm websites to reflect firm-wide arrangements). The aim, however, is to establish consistent frameworks for reporting within the Code on:

- Pricing policy (as applicable)
- Best Execution reporting
- Research payment account disclosure (as applicable)

The link between the templates and these wider reporting areas is that the former provide the quantitative detail of the costs of the investment process while the latter disclosures are supplementary and provide further accountability on specific aspects of the investment process both in relation to elements of cost (pricing policy and RPA disclosure) and efficiency (Best Execution). Taken together the templates and wider reporting areas provide complete accountability of the cost and efficiency of the investment process.

Consistency and accessibility

All terms used in the Code are defined in a Glossary (Appendix III) to facilitate understanding of the investment process. Key Concepts are also set out in the next section.

Detailed technical notes specifying how data points are calculated are attached in Appendix I.

Templates are being suggested for core reporting in both segregated mandates and pooled funds. However, all core data points outlined in Part III will have their own definitional tags to allow third party providers to carry out and assist with the assembly of reporting as per specific arrangements with managers or clients. Appendix I sets out the full list, which will also be available in data file formats.

The templates are published in excel format alongside this document.

Data verification

As a trade association, the IA's role is creating a standard Disclosure Code that its members can use to comply with FCA and European requirements as well as meeting client expectations. The IA will continue to assess the suitability of the Code as regulation evolves to ensure clients receive the required information. The IA has no role in the verification of the data produced by its members for their clients.

It should be noted that FCA-regulated firms already have detailed regulatory obligations in respect of client reporting.[11] Clients have the option to seek independent data verification and interpretation if they so choose and specialist firms exist to help clients on these issues.

[11] See the Principle of Business and COBS 4.2.1 and 16.

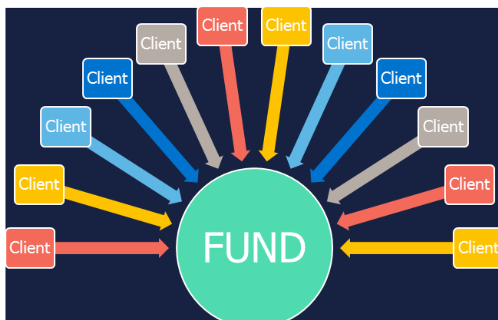
II. KEY CONCEPTS IN CHARGES AND COSTS

Asset management operates on an agency basis. Charges are levied for the professional service provided, in the course of which the costs of investing in capital markets are incurred. Other providers of financial services will levy their own charges relating to the service or product offered e.g. for financial advice or provision of a pension product.

Asset management services are offered on either a segregated or pooled basis. There are a number of reasons why clients may choose either route. A segregated mandate offers the opportunity for a fully bespoke service to be provided to an individual client under a specific contractual agreement. A pooled investment fund co-mingles the assets of many investors and therefore by design involves other services, notably oversight via a depositary/corporate trustee and safekeeping of assets. Other pooling arrangements also exist in the long-term savings market, notably unit-linked contracts which aim to imitate funds by linking the value of the contract to the value of specified assets held within an insurance company structure.

Figure 1: Collective vs segregated approach

Collective (pooled) vehicles can be accessed by a range of different investors. eg. unit trusts, OEICS, other funds



A **segregated** mandate is a bespoke arrangement between an individual client and an investment manager, governed by a specific agreement

The Code is designed to capture the charges and costs of all products and services in as consistent a manner as possible.

Role of OCF

The fund management industry (i.e. operators of pooled funds) most commonly presents its management charge through the Ongoing Charges Figure (OCF), which provides information on the product charge on an on-going and fairly predictable basis, in line with regulatory guidance on its detailed calculation. The OCF encompasses management fees as

well as fees paid to other service providers such as the fund's custodian, auditor and regulator. Such a measure allows consumers to look across competing funds, see what the product provider is charging them for their service, and compare the costs of the service on a meaningful basis.

The management of a segregated portfolio also incurs a management fee although, due to the bespoke nature of such arrangements, there is currently no standardised equivalent to the OCF.

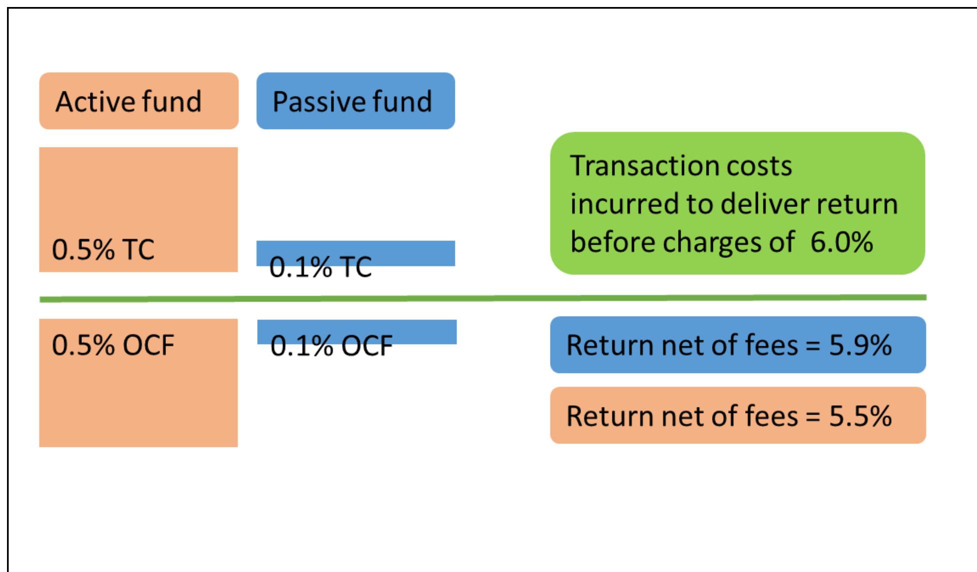
All things being equal, service charges will reduce the return in a linear fashion. In other words, a charge of 0.5% in a year will reduce the return by 0.5% in that year.

Transaction Costs

Transaction costs are inextricably linked with the process of investing in order to generate a return on behalf a client. They are the costs incurred by fund or portfolio managers buying or selling securities and financial instruments. These buying and selling actions can arise because of investor flow, index rebalances, new investment ideas or ongoing risk management. Transaction costs can vary significantly across markets and across time, and will also depend upon how economic exposure is achieved.

Without incurring transaction costs there can be no investment return. These costs arise due to the need for a market infrastructure that allows for assets to be moved from those who wish to sell to those who wish to buy. Importantly transaction costs are already captured within the return delivered by the asset management firm (see Figure 2).

Figure 2: Effect of charges vs effect of transaction costs



Unlike charges, transaction costs should always be viewed in the context of the return they generate and the investment approach followed. Transaction costs do not have a linear

relationship to overall return as the OCF does. Two fund managers could incur considerably different transaction costs, but deliver the same return before fees. The level of the charge will determine the net outcome.

In answering the question, which fund is more expensive (or cheaper), the IA would suggest that there are two different components to address. First, the cost of delivering a given return, and what the level (and variability) of transaction costs tell the investor about the investment process itself. Second, the fee paid to the manager for delivering the return.

Types of transaction costs

Transaction costs represent the total frictional cost of exchanging one asset (cash) for another asset (securities) based on the value of each asset at the point in time they are exchanged. For example, at a point in time, it might be necessary to spend £1,006 cash in order to buy shares with a mid-market value of £1,000 and cover transaction costs of £6.

Transaction costs can be divided into implicit and explicit costs. The latter can be identified by association to real cash payments from the fund or portfolio to some other agent. Implicit costs, on the other hand, cover a variety of impacts, not all of which are measureable with any high degree of certainty.

Explicit costs consist simply of:

- Commission paid to a broker on the purchase or sale of securities.
- Transaction taxes and levies paid to Governments/regulatory bodies or exchanges e.g. stamp duty levied on the purchase of UK equities.

Implicit costs are those that do not result from any fees being paid as a separately identifiable amount by one party to another. The most commonly encountered implicit cost is the bid/offer spread, the difference between the price for buying (offer) and the price for selling (bid) a security. For example, at some point in time, a fund seeking to buy a security might need to pay 100p and a fund selling at the same point in time might only receive 99p.

Table 1: Main costs of trading

Type of cost	Main features
Commission (explicit)	A fee paid to a broker on the purchase or sale of stocks or securities
Transaction tax (explicit)	Tax levied on the transaction (e.g. 0.5% stamp duty levied when buying UK shares)
Bid/Offer spread (implicit)	The difference between the price for buying (offer) and the price for selling (bid) a stock or security

The cost of translating cash into a financial instrument is not explicit but it is a real cost borne by investors which reduces the total amount of capital they have that is being put to work. Although no cash has been transferred by the fund for an identifiable transaction fee separately from the purchase price, a brokerage firm or an investment bank has earned revenue in the process.

Historically, investment banks have also provided research services on a bundled basis alongside execution services. The reporting and regulatory architecture in this area has evolved considerably over the past 15 years and MiFID II changes the way that firms can charge clients for investment research. In particular, it separates out the charges for research and execution. If clients are being charged for the cost of research, it requires the setting of research budgets that the client must separately agree to.

Quantity of trading vs quality of trading

There is an additional category of implicit costs considered by practitioners of the Transaction Costs Analysis (TCA) discipline. These arise variously from the response of the market to any trading or known intent to trade and also from any impacts from the timing of a trade or a delay in getting an order to market once it has been decided upon by the fund manager:

- Market impact - placing a large order for a security can move the market price against a buyer or seller. Market impact can relate both to one's own orders and concurrent orders placed by other market participants.
- Delay – the change in the market price in the time from order initiation (when the manager decides to buy or sell a particular security) to the point their order is placed in the market.
- Opportunity – orders are either filled or partially filled. Where the order is partially filled there is a risk once the order is closed of missing out on the opportunity to participate in favourable movements in the market price in respect of the unfilled portion of the order.

These categories of implicit cost represent estimates of how well a given decision to buy or sell an investment is implemented in the relevant markets. What makes them different from the spread within the market is that these costs represent value lost (or gained when the price moves in the trader's favour) to the market as a consequence of how and when the decision to trade was brought to market. The cost of the spread, on the other hand, represents economic value transferred to counterparties transacting with the fund as a consequence of the actual execution of a trade.

[CONSULTATION NOTE: The regulatory definition of implicit costs is still the subject of debate as the consultation on this new Code goes to press. The final version of the Code – and this section – will reflect the regulator's prescribed measure. In the interim, the IA proposes best efforts reporting of implicit costs

to clients. For most firms, we consider this to be an estimate derived by reference to an appropriate spread.

Under EU and FCA proposals, slippage cost – based on the difference in the price at which a trade is executed and the market price at the time the trade was placed in the market – tries to capture some of the wider costs set out above, notably market impact.]

Best Execution

There is a critical difference between the total cost of trading, which will be determined primarily by decisions as to whether to buy and sell a given basket of stocks and securities, and the unit cost per trade. Total transaction cost information provided under the reporting templates in this Code is required under regulation as part of UK and EU cost disclosure rules. EU regulation also covers best execution, designed both to promote broader market efficiency as well as ensure the best results for investors, whether investing through funds or on own account. Best execution requires that firms take sufficient steps to obtain: "the best possible result for their clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to execution." Cost is therefore an important factor, but not the only one and MiFID II requires a broader set of considerations than simply a cost per trade analysis.

Best Execution under MiFID II can be broken down into three main stages:

- Order execution policy; and initial disclosure to (potential) clients of appropriate information about the firm's execution policy
- Achievement of best execution when dealing on behalf of clients
- Annual disclosure of best execution information

This Code sets out the ways in which a firm will communicate these elements to portfolio management clients. The initial disclosure of appropriate information about the firm's execution policy will be provided at the start of the relationship.

Annual disclosure of how the firm achieved best execution will be published on its website for all to see. The content of both of these communications are set out in detail by legislation, so asset management firms have little discretion in how they meet their obligations in this area.

Pricing Policy

As set out above, when underlying investments are bought or sold on behalf of a pooled fund, transaction costs arise. Those costs will be shared fairly by all investors in the fund. However, when investments are traded as a direct result of investors joining or leaving a fund, fund managers may employ a number of techniques to provide investors with protection from such dilution. This section sets out the main approaches to unit pricing and

reiterates pre-existing guidance as to disclosure of pricing policy to ensure that investors and distributors are aware of the relevant approach.

The template set out in Part III will always provide the experience of transaction costs at the fund level. Alongside the portfolio turnover rate, the transaction cost information is intended to help investors understand the quantum of transaction costs in the investment process. Where techniques, as described below, are used to protect existing investors, there will be an offset to the total transaction costs reported by the fund as shown in the pooled fund template in Part III of the Code.

The pricing policy guidance complements the template to facilitate the communication by fund managers of the relevant costs that an individual experiences in entering or exiting a fund, as opposed to the experience of the underlying fund. This section explains single priced funds (both mid-market priced and swinging) and dual priced funds.

Single Mid-Market Price

The simplest pricing technique is to calculate the single mid-market price of fund units taking no account of transaction costs. All unit deals take place at this single price. This approach enables investors to access investments more cheaply than buying them directly at their offer price and to withdraw their capital at a better price than they could achieve for selling their direct investments at their bid price. However, these advantageous prices are subsidised by the existing or continuing investors so when the volume of unit dealing becomes significant, the fund manager will impose a dilution levy on investors as they join or leave and pay the proceeds of this levy into the fund to offset the cost of the subsidy.

Single Swinging Price

A variant of this approach is to adjust the single mid-market price in order to cover the costs of buying or selling underlying investments. This approach is known as swinging pricing and the adjustment has a similar effect to a dilution levy. However, unlike a dilution levy, which can be applied selectively to specific unit deals, a swung price is applied to every unit deal. It works like this: an investor places an order for £1,000 so the fund manager will need to buy £1,000 worth of underlying investments. This will incur transaction costs of, say, £10 so to protect the existing investors in the fund from suffering this cost, the new investor is charged £1,010 for the investment by swinging the price upwards from 100p to 101p per unit. In this way the new investor contributes £10 to cover the fund's costs.

A side effect of this approach is a benefit to any investors that leave the fund at the same time. In the above example, another investor withdraws £800. There is only a single price of 101p for the fund so this investor will receive proceeds of £808; in effect receiving a bonus of £8 as a result of recycling the redeemed units and passing them on to the new investor, a process known as matching. The net contribution of the two investors to the fund's costs is £2 which is sufficient to cover transaction costs because the fund manager now needs to buy only £200 of investments.

Some managers take the view that the matching bonus in this example should be shared between both investors in proportion to the respective sizes of their deals. This might be

achieved by halving both the contribution to costs from the new investor and the bonus paid out to the exiting investor by only partially swinging the price to 100.5p. In this case the new investor will pay £1,005 and the exiting investor will receive £804. However, this approach only partially offsets the cost of buying new investments because the single price of 100.5p yields a net contribution of only £1 towards the fund's costs of £2.

Dual Price Funds

A more complex technique is to calculate dual prices: the issue price, which is calculated including the cost of buying underlying investments; and the cancellation price, which includes the cost of selling underlying investments. These prices are equivalent to the fully swung prices in a swinging pricing system. However, unlike the single swung price, the manager is able to set the unit dealing price at which investors can join or leave the fund anywhere in the range between the issue and cancellation prices. There are a number of options for the manager in setting the unit dealing price:

1. The dealing price is equal to the issue price of 101p. Using the figures in the previous example, the new investor would pay £1,010, contributing £10 towards costs and the exiting investor would receive £808 including the bonus of £8. The fund would receive a £2 contribution that matches precisely the cost of buying £200 of underlying investments.

2. The manager decides to share the matching bonus between the investors so that the new investor contributes only half as much cost and the exiting investor receives only half as much bonus. The issue price of 101p guarantees that the fund will receive the full contribution to cover transaction costs of £2 but now the two investors dealing at 100.5p have only made a net contribution of £1. In this case the additional £1 must be contributed by the manager from its own resources.

3. Unlike swinging pricing, dual pricing allows the manager to share the matching bonus between the investors without needing to subsidise the contribution towards transaction costs. This can be achieved by creating a dealing spread whereby the new investor pays a higher price than the exiting investor receives. In other words, the manager creates a bid/offer spread. For example, in order to ensure £2 is contributed to the fund, the manager could require the new investor to pay £1,005.60 (at an offer price of 100.56p) and pay £803.60 (at a bid price of 100.45p) to the exiting investor. Imposing this bid/offer spread ensures both investors benefit from the ability to match units and the fund receives the full contribution of £2 to cover transaction costs.

Whichever technique is used to protect existing and continuing investors from dilution, the basic principle is to ensure that investors joining or leaving the fund do so at an appropriate price. The starting point is that joining or leaving investors pay a price that reflects the cost of creating or cancelling fund units. In some instances these investors can benefit from the matching process and are able to deal at a more advantageous price than if they had bought or sold the underlying investments directly.

III: CORE PERFORMANCE, CHARGES AND TRANSACTION COST DATA

This part sets out core data reporting under the Code, across both segregated mandates and pooled funds. Although there is significant consistency of underlying information, the different nature of segregated mandates and pooled funds means that the IA has suggested that where a template is used for reporting, it should be appropriate to the nature of the product and service provided. There are therefore two approaches set out, but key definitions, such as market transaction costs, will be identical.

The list of core data items follows in the next section, and much of this is already reported. The major changes relative to current disclosure concern the inclusion of implicit costs (see p.28-30), the use of a consistent portfolio turnover methodology and more granular data on stock lending revenue (as applicable). Arguably, the most important innovation here is the consistency of the framework, such that whether a firm is operating an investment fund or a unit-linked fund, the charge and cost disclosure approach now falls under a single umbrella.

List of asset classes in scope

The Code is intended to cover the costs of all major asset classes, instruments and securities lending programmes. Asset classes such as Private Equity and Hedge Funds are likely to require alternative reporting arrangements which their own representative bodies should be able to assist with.

The following asset classes and instruments are in scope for the cost disclosures envisaged in this Code, across both pooled funds (including fund-of-funds) and segregated portfolios:

- Equities
- Bonds
- Money Market instruments
- Property
- Derivatives (listed and OTC)
- Multi-asset and outcome-focused solutions
- Securities lending programmes

Although the Code has been designed specifically with these asset classes in mind, this does not preclude its wider application to other asset classes.

Data points

The level of granularity delivered to the client will vary according to the relevant regulatory requirements as well as the client's demands. However, by capturing all these data points managers will be able to serve the demands of all client groups as well as regulation.

The IA proposes reporting the following:

- Investment return (gross and net of fees) over various time periods
- Investment activity by asset class – purchases, sales, opening and closing assets. Turnover is also reported at a portfolio level.
- Management fees – whether separately invoiced or deducted from the assets of a fund or portfolio
- Performance fees where applicable
- Payments for investment research under forthcoming MiFID II rules, where applicable
- Transaction costs by asset class – both explicit and implicit. Note that the disclosure of transaction costs via this Code is purely a quantification of costs and not a representation of the quality of the trading process. As discussed in above, such a discussion would require a wider set of metrics that the IA believes should not form part of a standardised quantitative set of cost disclosures.
- Costs imposed on investors entering or exiting a pooled fund as a result of pricing policies designed to protect the fund from dilution
- Income and costs for any securities lending programmes
- The costs of any ancillary services in a pooled fund or arranged by a manager on behalf of a client with a segregated portfolio

Segregated Mandate Template

The segregated mandate template should be used for any segregated portfolio management mandate. This will include costs associated with holdings in any pooled funds selected by the asset manager.

Reporting should be done by asset class unless the mandate relates to a multi-asset strategy such as LDI. Where this is the case the report should cover the costs and performance of the strategy as a whole rather than the constituent asset classes.

The report will normally cover a **period of one year** ending on a date agreed with the client.

Figure 3: Segregated Mandate Template

SEGREGATED MANDATE COST COLLECTION TEMPLATE *For use with segregated portfolio management mandates*

All figures in GBP unless specified

Asset Manager								
Portfolio name								
Period of report	Start:			End:				
Investment return	**1 year**	**3 years**	**5 years**	**10 years**	**Since formation**			
Gross return (% pa)								
Net return (% pa)								
Investment activity	**Total**	**Equity**	**Bonds**	**Property**	**Pooled funds**			**Other (specify)**
Opening assets								
Closing assets								
Purchases	0							
Sales	0							
Turnover (% pa)	%							
Management fees	**Total**							
Invoiced fees (less rebates)								
VAT (if applicable)								
Payments for research								
Other charges (specify)								
Performance fees								
Total	**0**							
Indirect fees								
Fees paid from NAV of pooled funds								
Transaction costs	**Total**	**Equity**	**Bonds**	**Property**	**Pooled funds**	**Derivatives**	**Foreign exchange**	**Other (specify)**
Transaction taxes	0							
Broker commission	0							
Implicit costs	0							
Entry/exit charges	0							
Indirect transaction costs	0							
Other transaction costs (specify)	0							
Total	**0**	0	0	0	0	0	0	0
Transaction costs per value traded								
Stock lending (if applicable)								
Value of stock on loan		%						
Gross income								
Less: income shared (name recipients)		%						
Income retained by client	**0**	%						
Ancillary sevices (if provided by manager)								
Custody charges								
Collateral management								
Other (specify)								
	0							

Pooled Fund Template

The pooled fund template should be used when the client invests directly in units of a pooled fund. This includes investment funds, unit-linked life funds and other collective investment structures.

In the case of unit-linked funds the client is the insurance company wrapping an investment fund or providing a directly invested unit-linked fund whose assets are being managed by a fund manager.

Reporting should be at the fund level, for both single and multi-asset funds. The client will be responsible for working out their own cost experience by applying the fund level data to the proportion of their total assets held in that fund.

The report will normally cover a **period of one year** being the annual reporting period of the fund.

Figure 4: Pooled Fund Template

POOLED FUND COST COLLECTION TEMPLATE — *For use with investments in pooled funds*

All figures in % of average NAV pa unless specified

Fund Manager	
Fund name	
Share class name	
Date of report	
Currency of report	GBP

Investment return (% pa)	**1 year**	**3 years**	**5 years**	**10 years**	**Since formation**
Net return					

Investment activity (GBP unless specified)	**Total**	**Equity**	**Bonds**	**Property**	**Pooled funds**	**Other (specify)**
Opening assets						
Closing assets						
Purchases	0					
Sales	0					
Turnover (% pa)	%					

Management fees	**Total (GBP)**
Invoiced fees (less any rebates)	
VAT (if applicable)	
Total	0

Client-specific data	**Client (GBP)**	*To be completed by the investing client in order to calculate client-specific amounts*
Average value of client holding		

Ongoing charges	**Client (GBP)**	**Total**
Manager's fees		
Other fees		
Indirect fees		
Total ongoing charges figure	0	0.00%

Performance fees	**Client (GBP)**	**Total**
Performance fees	0	

Transaction costs	**Client (GBP)**	**Total**	**Equity**	**Bonds**	**Property**	**Pooled funds**	**Derivatives**	**Foreign exchange**	**Other (specify)**
Transaction taxes		0.00%							
Broker commission		0.00%							
Implicit costs		0.00%							
Entry/exit charges		0.00%							
Indirect transaction costs		0.00%							
Other transaction costs (specify)		0.00%							
Anti-dilution offset		-0.01%							
Total transaction costs	0	-0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Stock lending (if applicable)	Total	
Value of stock on loan		%
Gross income		
Less: income shared (name recipients)		%
Income retained by pooled fund	0	%

Detailed Technical notes to aid the completion of these templates by firms are available in Appendix I.

Example disclosures of Pricing Policy descriptions

Appropriate, clear, easily understandable information about the pricing policy should be provided to investors explaining dilution and how the pricing policy operates to protect existing and continuing investors from its effects. Example disclosures are provided below:

Single Swinging Price

We operate a single pricing methodology for this fund and reserve the right to adjust the fund's price to protect your investment from the costs of buying or selling investments that result from other investors joining or leaving the fund.

The amount of any such adjustment is calculated by reference to the estimated costs of dealing in the underlying investments, including any dealing spreads, broker commissions [and [transfer taxes][stamp duty]]. Typical adjustments to this fund's price are to increase it by [ ]% for net inflows or decrease it by [ ]% for net outflows.

[We always adjust the price to the maximum extent possible whenever net contributions or withdrawals take place, which means that your investment is fully protected from the costs of the resultant transactions]; or

[We usually adjust the price to the maximum extent possible whenever net contributions or withdrawals take place, which means that your investment is usually protected from the costs of the resultant transactions]; or

[We usually adjust the price to the maximum extent possible when the value of net contributions or withdrawals is significant, which helps to protect your investment from the costs of the resultant transactions]; or

[We usually adjust the price whenever net contributions or withdrawals take place, which helps to protect your investment from the costs of the resultant transactions]; or

[We usually adjust the price when the value of net contributions or withdrawals is significant, which helps to protect your investment from the costs of the resultant transactions].

Single Price with Dilution Levy

We operate a single pricing methodology for this fund and reserve the right to charge a dilution levy to protect your investment from the costs of buying or selling investments that result from large investors joining or leaving the fund. The amount of any such dilution levy is calculated by reference to the estimated costs of dealing in the underlying investments, including any dealing spreads, broker commissions [and [transfer taxes][stamp duty]].

[Investors joining the fund may be charged a levy of up to [ ]% of their contribution.][Investors leaving the fund may be charged a levy of up to [ ]% of their proceeds.] When we impose a dilution levy on a particular investor or group of investors,

this is paid into the fund and helps to protect your investment from the costs of the resultant transactions.

Dual Price Fund

We operate a dual pricing methodology for this fund whereby net contributions take place at the issue price and net withdrawals take place at the cancellation price.

The issue price is currently [ ]% higher than the cancellation price. The issue price is calculated by reference to the buying prices of the underlying investments, plus an allowance for broker commissions [and [transfer taxes][stamp duty]].

The cancellation price is calculated by reference to the selling prices of the underlying investments, less an allowance for broker commissions [and transfer taxes].

This means that, when investments are bought or sold as a result of other investors joining or leaving the fund, your investment is fully protected from the costs of these transactions.

Best Execution

Best Execution disclosure under MiFID II can be broken down into three main stages:

- Order execution policy; and initial disclosure to (potential) clients of appropriate information about the firm's execution policy.
- Achievement of best execution when dealing on behalf of clients.
- Annual disclosure of best execution information.

Order Execution Policy

Order execution policies shall be customised depending on the classes of financial instrument and the type of service provided.

The policy should include lists of execution venues or entities used, for each class of financial instruments, including the factors affecting the choice of execution venue. This information should be provided to clients on request.

The order execution policy must allow the firm to obtain, on a consistent basis, the best possible result by establishing and implementing effective arrangements.

Initial Disclosure

Appropriate, clear, easily understandable information about this policy should be provided to clients.

Information to clients should summarise: how venue selection occurs; specific execution strategies employed; the procedures and processes used to analyse the quality of execution obtained; and, how the firm monitors and verifies that the best possible results were obtained for clients.

Information to clients should clearly indicate whether an investment firm may execute orders or transmit or place orders with an entity that may execute these orders outside a trading venue. This information shall also set out the consequences of counterparty risk to the client from this means of execution. Prior ***express*** consent must be obtained if the firm may execute orders outside a trading venue (e.g. using SI or OTC).

Disclosure to retail clients should focus on total costs, in order to give information understandable to the retail client.

Prior consent to the policy must be obtained.

The summary shall provide a link to the most recent execution quality data published by execution venues used by the firm.

Best Execution under MiFID II

Clients can request that a firm demonstrate that it has executed their orders in accordance with its execution policy.

Annual Disclosure

Investment firms must make public the top five execution venues in terms of trading volumes where they executed or placed orders in the preceding year and the top five brokers with whom orders were placed.

In addition to this information, firms must publish a summary of the analysis of and conclusions drawn from their monitoring of the quality of execution obtained in the previous year. This shall include where appropriate:

- An explanation of the relative importance given to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution.
- Any close links, conflicts of interests, or common ownerships with respect to any execution venues used.
- Any arrangements with execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received.
- An explanation of any changes in execution venues listed.
- An explanation of how order execution differs according to client categorisation, if the firm treats categories of clients differently.
- An explanation of whether other criteria were given precedence over immediate price and cost and how these other criteria were instrumental in delivering the best possible result.
- An explanation of how the investment firm has used any data or tools relating to the quality of execution.
- An explanation of how the firm has used output of a consolidated tape provider.

The Disclosure Code will implement the final MiFID II regulatory framework in this area.

Research Payment Account disclosure

MiFID II changes the way that firms can organise their approach to investment research. In particular, it requires a separation of the charges for research and execution. If clients are being charged for the cost of research it requires the setting of research budgets. The client must be informed of this budget, and the implied maximum charge for them.

Most relevant to this Disclosure Code, MIFID II also requires disclosure of information by firms to their clients on the costs of research.

Firms have three choices for paying for research under MiFID II:

- Direct payment from the firm's own resources – *meaning that the disclosure requirements set out in this Code do not apply, (though the management fee from which notionally such expenses are met is disclosed)*.

- Payments from a separate Research Payment Account (RPA):

    - Funded by a specific charge to the client.

    - Or through commissions.

The disclosure provisions for research set out in this Code apply in these latter two cases.

There are ex-ante and ex-post disclosure requirements for RPAs.

Ex-ante Research Cost Disclosure

Before providing investment services an asset manager must provide to each client a summary of the budgeted amount for research and the expected research charge to the client. This can be a **representative example expressed in basis points or an absolute amount**.

The client must be informed of the initial charge and should be notified if there is any variation in that charge.

Ex-post Research Cost Disclosure

An **annual statement of research charges** should be sent to the client **in both monetary terms and basis points**. For clients investing via a segregated account this is captured explicitly in the segregated mandate cost template above (the relevant line item is 'Payments for Research'). For pooled funds, the working assumption is that the research charge will form a component of the OCF and so is not shown separately. However, in addition to the cost templates, the final version of the Code will implement the MiFID II research disclosure requirements.

The client can request further detailed ex-post disclosure on payments made from a research payment account[12]. FCA rules in this area are currently in draft form and have yet to be finalised, but currently specify a summary of the following items:

- The providers paid from the account.

- The total amount they were paid over a defined period.

- The benefits and services received by the firm.

[12] See draft COBS 2.3B.20 R in the FCA's CP16/29: Markets in Financial Instruments Directive II Implementation – Consultation Paper III, September 2016

- How the total amount spent from the account compares to the budget set by the firm for that period, noting any rebate or carry-over if residual funds remain in the account.

For pooled funds the FCA's draft rules[13] state that these ex-post disclosures should also be made available – at the level of the fund – to the end-unit holders in pooled funds and we will bring forward proposals to facilitate this when we publish our feedback statement on the Consultation later in 2017.

The Disclosure Code will implement the final MiFID II regulatory framework in this area.

[13] See draft COBS 18 Annex 1, 4.10-4.11 in the FCA's CP16/43: Markets in Financial Instruments Directive II Implementation – Consultation Paper IV, December 2016.

APPENDIX I: TECHNICAL NOTES TO COST TEMPLATES

The notes in this appendix accompany the cost reporting templates in Part III and are designed to be a technical guide for those within asset management firms responsible for completing the templates.

SEGREGATED MANDATE COST COLLECTION TEMPLATE	
1	The **segregated mandate cost collection template** should be used for any segregated portfolio management mandate. It will include costs associated with holdings in any pooled funds selected by the asset manager.
2	The report will normally cover a **period of one year** ending on a date agreed with the client.
3	According to the GIPS Handbook "the **gross-of-fees return** is defined as the return on investments reduced by any trading expenses. Returns should be calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes should be accrued. Because the gross-of-fees return includes only the return on investments and the associated trading expenses, it is the best measure of the firm's investment management ability and can be thought of as the 'investment return.'" … "These costs must be included because they must be incurred in order to implement the investment strategy."
4	According to the GIPS Handbook "the **net-of-fees return** is defined to be the gross-of-fees return reduced by the investment management fees incurred, which includes performance-based fees and carried interest. It is important to recognize that the net-of-fees return consists of two distinct components: the gross-of-fees return and the impact of the investment management fee."
5	**Investment returns** should be shown as annualised percentages.
6	**Investment activity** is included to give context to transaction costs. Figures are not given for derivatives and foreign exchange because there is no consideration paid when entering into a contract and their contribution to the value of the portfolio is the accrued profit or loss at the reporting date. The asset classes shown are the minimum required level of analysis. Each class can be sub-divided further where, in the opinion of the manager, this will provide more meaningful information.
7	**Total opening and closing assets** is the sum of all assets and liabilities including cash and accruals. Therefore it is not equal to the sum of the amounts invested in each of the specified asset classes.
8	**Turnover** is calculated as the lesser of purchases or sales divided by average assets over the period. Taking the lesser figure mitigates the effect of net inflows or outflows.
9	**Management fees** comprises all income derived by the manager and associates.
10	**Payments for research** are payments made from the client's assets to fund a Research Payment Account but excludes the research element of any bundled commission payment to a broker, which is included in transaction costs in

	accordance with 13 below. This item will be applicable only once MiFID II comes into effect on 3 January 2018.
11	**Indirect fees** comprise all payments deducted from the net asset values of any pooled funds held as part of the portfolio. The figure used should be the figure most recently published by the pooled fund although it is not necessary for the pooled fund to recalculate these figures for the period referred to in item 2 above. The pooled funds' costs can be assumed to emerge evenly throughout the year and may be pro-rated according to the value of the holding. Payments realised by cashing in clients' units in a pooled fund should also be included here.
12	**Transaction taxes** include stamp duty and any other financial transaction taxes.
13	**Broker commissions** comprises bundled payments for research and execution. However, when MiFID II comes into effect on 3 January 2018 it will not be permissible to pay for research using commissions generated in proportion to dealing volumes. From that date any research paid for by a client will be reported in accordance with item 10 above. Other levies, such as exchange fees, settlement fees and clearing fees are normally covered by broker commissions but if they are billed separately such amounts should be added to the broker commissions figure.
14	**Implicit costs** represent the loss of value implied by the difference between the actual transaction price and the mid-market value of the asset. At the time of going to press the precise methodologies are being deliberated by regulators and it is not clear that a one-size-fits-all approach will be possible. Until such time as regulators finalise the methodologies, it is recommended that firms may calculate implicit costs by reference to appropriate measures of market spread and portfolio turnover.
15	**Entry/exit charges** may arise when a holding in a pooled fund is bought or sold. The amount reported should be the actual amount incurred for each transaction and should include any dilution levies made in addition to the price and any amounts representing the difference between the transaction price and the net asset value per unit calculated by reference to the mid-market portfolio valuation.
16	**Indirect transaction costs** are transaction costs incurred within pooled funds when they buy and sell their underlying investments. The figure used should be the figure most recently published by the pooled fund although it is not necessary for the pooled fund to recalculate these figures for the period referred to in item 2 above. The pooled funds' costs can be assumed to emerge evenly throughout the year and may be pro-rated according to the value of the holding.
17	**Other transaction costs** are items not included in any other category of transaction cost. For example, for real estate, this might include legal and valuation fees in respect of transactions, expenditure on repairs and maintenance, costs incurred in relation to aborted transactions and letting and lease renewal fees.

18	**Securities lending** generates an additional revenue stream for the client. Revenues are normally shared by the client and the asset manager or their appointed lending agent. The disclosure should enable the client to understand the total revenue generated and the proportion of the total they actually receive. The beneficiaries of the revenue sharing arrangements should be identified. Where lending arrangements exist between the client and custodian with no involvement of the manager, any reporting should be provided to the client directly by the custodian without involving the manager.
19	**Custody charges** and any other ancillary services should be disclosed only where the asset manager provides them or arranges them on behalf of the client. Where the client makes their own arrangements the service provider should account for their charges directly to the client.

POOLED FUND COST COLLECTION TEMPLATE	
1	The **pooled fund cost collection template** should be used when the client invests directly in the units of a pooled fund.
2	The report will normally cover a **period of one year,** this being the annual reporting period of the pooled fund. It is not necessary to tailor the report to the client's reporting period.
3	**Investment return** should be reported net of all charges and costs. Where charges are invoiced outside the pooled fund or are realised by cashing in clients' units in a pooled fund the unit performance record should be adjusted to take account of these charges.
4	**Investment returns** should be shown as annualised percentages for the share class concerned.
5	**Investment activity** is included to give context to transaction costs. This information should be given for the fund as a whole and not for individual share classes. Figures are not given for derivatives and foreign exchange because there is no consideration paid when entering into a contract and their contribution to the value of the portfolio is the accrued profit or loss at the reporting date. The asset classes shown are the minimum required level of analysis. Each class can be sub-divided further where, in the opinion of the manager, this will provide more meaningful information.
6	**Total opening and closing assets** is the sum of all assets and liabilities including cash and accruals. Therefore it is not equal to the sum of the amounts invested in each of the specified asset classes.
7	**Turnover** is calculated as the lesser of purchases or sales divided by average assets over the period. Taking the lesser figure mitigates the effect of net inflows or outflows.
8	**Management fees** comprise all income derived by the manager and associates that is invoiced to the client and not deducted from the value of the pooled fund itself. Payments realised by cashing in clients' units in a pooled fund should also be included here. The figure given should be shown net of any rebates, including rebates in respect of the ongoing charges deducted from the pooled fund.
9	The **charges and costs** figures will be percentages for the share class in question and do not represent the actual experience of a particular client. Clients will be able to apply these percentages to their own holdings records to calculate the monetary amounts of costs incurred. It is for the client to determine their own average holding value for their period of account.
10	**Manager's fees** comprise all income derived by the manager and associates, except for a performance fee which is disclosed in accordance with 13 below.
11	**Other fees** comprise all payments made to parties providing services to the pooled fund other than the manager such as, but not limited to, the depositary, custodian, auditor, property related expenses to the extent these are not included in transaction costs in accordance with 14 below and any other fees or levies deducted from the pooled fund.

12	**Indirect fees** comprise all charges deducted from the net asset values of underlying holdings of other pooled funds such as, but not limited to, funds of funds structures.
13	**Performance fees** should be the amount incurred for the reporting period of the pooled fund.
14	**Transaction costs** should be calculated in the same way as for the segregated mandate template and expressed as a percentage of the average net asset value over the period.
15	**Anti-dilution offsets** should be the amounts collected in the period from dilution levies and dilution adjustments (in the case of swinging prices) or the equivalent amounts in relation to the issue and cancellation prices of dual priced funds.
16	**Securities lending** should be disclosed consistently with the segregated mandate template.

APPENDIX II: DISCLOSURES FOR UNIT-LINKED FUNDS

Transaction Costs

Transaction costs as captured in the templates should be disclosed for unit-linked funds – both directly invested and insurance-wrapped investment funds.

Ongoing Charges/Management Fees

Fund managers should report on-going charges to a unit-linked fund provider wrapping their funds as per the pooled fund reporting template. Where asset managers manage a directly invested unit-linked portfolio, they should report their management fee to the unit-linked product provider. These charges do not cover the costs of the unit-linked fund provider itself.

Client Processing Costs in Wrapped Funds

In a wrapped fund there may be an additional layer of costs incurred at the client level in the processing of the client's transactions. These transactions are executed by asset managers on behalf of the unit-linked fund provider's client. Where these costs arise, the asset manager should report them back to the unit-linked fund provider for onward reporting to the client.

The costs falling into this category are as follows:

- FX costs where a client invests in share classes or funds that are denominated in different currencies to that in which the client's money is denominated.

- A dilution levy in the specific case where it is charged outside the fund and directly to the client on exiting the investment.

- Client money accounts that earn interest which is not passed on to the client. Interest not passed on to the client should be reported as a cost.

- Charges for off-shore settlement (if the client requires monies to be paid into a foreign bank account).

Pricing Policy

Unit-linked fund providers should also disclose the pricing policies on their funds. The example pricing policy disclosures in Part IV of the Code are suitable for unit-linked funds.

Materiality

(i) Look-through to underlying funds

In a fund-of-fund structure, at each level the costs of the previous level are incorporated into the costs for that level. Therefore look-through only needs to take account of the top

level. E.g. for a three level structure, level two costs already incorporate the costs of level three, while level one already incorporates the costs of levels two and three. So only the top level (1) cost needs to be considered.

(ii) Frequency of cost calculations in a fund-of-fund structure where changes in underlying fund holdings change the level of costs

As per the cost calculation methodologies, cost figures should be calculated at least once a year on an ex-post basis. The ex-post figures should be based on sufficiently recent cost calculations; they may be based on the annual or half-yearly accounting period, if sufficiently recent, or else a more recent twelve-month period. Where the figure is considered unsuitable because of a material change, an estimate may be used until reliable figures reflecting the change become available.

'Sufficiently recent' is taken from UCITS guidelines and is not normally interpreted as being a fixed time period but is regarded as aiming to ensure that the cost calculations are sufficiently recent to ensure the figures are reliable. Normally the annual accounting period is used.

Treatment of Securities Lending

Any earnings from securities-lending (more generally any efficient portfolio management technique) not paid to a unit-linked fund is to be treated as a cost and disclosed as such; as should any other payments to securities lending agents.

APPENDIX III: GLOSSARY OF TERMS

Alternative Investment Fund (AIF)	A 'collective investment undertaking' that is not subject to the UCITS regime, and includes hedge funds, private equity funds, retail investment funds, investment companies and real estate funds, among others.
Ancillary services	Activities that form part of the investment chain or process and are typically outsourced by an asset manager to another service provider. Such activities include, for example, custodianship, audit and administration of client assets, the purchase of investment research, cash/collateral management, FX services etc.
Anti-dilution off-set/Dilution levy	The payment made by an investor entering or exiting a fund to off-set the impact on the fund of the transaction costs incurred by that investor (dilution). The payment is made into the fund and protects ongoing investors from the transactions of entering or exiting investors.
Arrival price	The benchmark price of an asset against which the achieved execution price is measured for the purposes of calculating transaction costs in the PRIIPs and DC WPP regulations. More precise definitions are set out in these regulations and vary according to availability of data and asset class.
Asset manager	The manager of a segregated mandate.
Auction	In a competitive auction investors apply for securities at a price they are prepared to pay. Securities are sold to those investors applying at the highest prices.
Best Execution	Refers to the requirement on an asset manager to obtain, when executing orders, the best possible result for its clients taking into account the price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order.
Bid price	The price at which an investor can sell a security or redeem a unit in a dual-priced pooled fund.
Bid/Offer Spread	The difference between the bid and offer price on a security or unit in a dual-priced pooled fund.
Broker commission	Fees paid by investors to brokers for the execution of trades in the market.

Bundled commission	Where broker commissions are used to pay for both the costs of execution together with the costs of investment research on a bundled basis. MiFID II will require managers to unbundle execution and research costs and charge clients separately for research (or bear the cost of research themselves).
Cancellation price	The price at which units in a pooled fund are cancelled when an investor redeems those units.
Capital guarantees	Guarantee options that can be purchased by an investor to protect their capital. Typically offered by banks and insurers rather than asset managers.
Carried interest	A share in the profits of an AIF accrued to the manager as compensation for the management of the fund. It excludes any share in the profits of the fund accrued to the manager as a return on any investment made by the manager into the fund.
CIS Disclosure Code	An IA code that aims to promote accountability to the Trustees and Depositaries of collective investment schemes over the commission costs levied on the fund's assets. It is the authorised fund counterpart to the Pension Fund Disclosure Code.
Client categorisation	Refers to the MiFID regime that uses client 'categories' to recognise that investors have different levels of experience, knowledge and expertise, tailoring regulatory protections accordingly.
Closing assets	The value of client/fund assets at the end of a given reporting period.
Collateral management	Collateralisation involves securing a transaction between counterparties with collateral. The management of collateral is a process that is used to reduce counterparty credit exposures - i.e. the risk of the counterparty being unable to meet its obligations.
Commitment fees	In pooled funds and segregated portfolios, there may be instances where the fund or portfolio manager agrees a credit facility with a panel of lenders, typically to cover unforeseen cash requirements, for instance to collateralise derivative positions or to settle a loss under a derivative instrument. If the facility is exercised then the costs (any fee for exercising the facility and then interest costs on the sums borrowed) will be charged to the fund or client in the case of a segregated portfolio. For pooled funds, the IA’s understanding is that any fee for exercising the facility would already be factored into the fund’s OCF.

Consolidated price	Where a security trades on multiple venues or is available from multiple brokers, the single consolidated price is calculated from the multiple prices being quoted for that security.
Consolidated tape provider	The consolidated tape is a high-speed, electronic system that reports the latest price and volume data on sales of certain financial instruments. MiFID II envisions that there should be a consolidated trade reports for shares, depositary receipts, ETFs, certificates and other similar financial instruments. In time it is envisaged that there will be a consolidated tape for non-equity instruments. The consolidated tape will be produced by firms who are authorised as consolidated tape providers.
Counterparty risk	The risk that the counterparty to a financial transaction is unable to meet their obligation contained within that transaction.
Creation of units	The act of creating units in a pooled fund which investors can then purchase in order to invest in that fund.
Custodian	A custodian bank is a financial institution responsible for safeguarding client assets. Client assets are kept separately from the asset manager responsible for managing them. For pooled funds (excluding life funds) the fund manager arranges custody of the fund's assets. Life funds do not require a custodian because the assets are owned by the life company and held on its balance sheet. Life fund investors are issued with a policy, the value of which is linked simply to the assets in the life fund. In segregated mandates the client typically makes its own custody arrangements although it can ask the portfolio manager to arrange custody on its behalf.
Custody charges	The cost of custody - paid to the custodian.
DC Workplace pensions transaction cost disclosure	FCA rules (due to be finalised in Q2 2017) which require the disclosure of transaction costs to workplace DC pension schemes.
Dealing commission	The costs paid by investors when asset managers execute trades and acquire external research on their behalf.
Derivatives	Financial contracts whose value is derived from an underlying asset or variable.

Dilution	Dilution occurs in a single-priced fund when the actual cost of purchasing or selling investments for a fund differs from the value of investments used to calculate the price at which units are issued or cancelled. E.g. as a result of investor redemptions, units are cancelled at the mid-market price. Investments are sold from the fund and the market bid price, less costs, is received. The impact of the dealing spread and transaction costs is suffered by the ongoing fund and not those investors who redeemed their units. Dilution does not occur in a dual-priced fund because the dual pricing mechanism automatically ensures that costs are borne by the investors buying or selling units in the fund rather than the ongoing investors.
Distributors	Firms distributing asset management products.
Dual priced fund	A pooled fund that operates a dual pricing mechanism whereby the investor purchases units at one price and sells them at another. The concept is the same as the bid-offer spread on securities.
Efficient Portfolio Management (EPM) techniques	Investment techniques and instruments which are used to meet one of the following aims: (i) reduce risk; (ii) reduce cost; (iii) generate additional capital or income for investors with a risk level consistent with the investors' risk tolerance.
Entry charge	A charge that may be levied for entering a fund.
Equities	Shares in a company.
Exchange fees	Fees and levies associated with trading on an exchange.
Execution costs	The costs of executing transactions in the market on behalf of clients.
Execution price	The price at which a transaction is completed.
Execution/Trading venues	The venue on which client transactions are carried out. There is a precise regulatory definition of execution venues in FCA rules (stemming from MiFID) which encompasses regulated markets, Multilateral Trading Facilities, Systematic Internalisers, Market Makers or other liquidity providers.
Exit charge	A charge that may be levied for exiting a fund.
Explicit transaction costs	Costs of the trading process that, by definition, can be identified by association to real cash payments moving from a fund, or other product, to some other party. The relevant costs are broker commissions and transaction taxes.

Fair value price	Where the market value of an asset is difficult to ascertain, investors may attempt to calculate a fair value price which is the price any party wishing to buy the asset should pay.
Financing costs	Any costs related to borrowing as part of an investment strategy. In pooled funds and segregated portfolios there may be rare instances where the fund or portfolio manager agrees a credit facility with a panel of lenders, typically to cover unforeseen cash requirements, for instance to collateralise derivative positions or to settle a loss under a derivative instrument.
Fixed Income	Debt instrument issued by public and private sector borrowers to raise capital.
Foreign Exchange costs	The costs associated with transactions in another currency.
Fund manager	The manager of a pooled fund.
Fund-of-Funds	A pooled fund that invests in other pooled funds.
Global Investment Performance Standards (GIPS)	A globally recognised investment industry standard for the calculation and presentation of investment performance. Further information is available at https://www.gipsstandards.org/Pages/index.aspx
Gross income from securities lending	Income generated, before fees, from a securities lending programme.
Hedged share class	A hedged share class allows clients investing in a foreign currency denominated fund to invest in their local currency while reducing the risk of any movements between their investment currency and the base currency of the fund having an adverse impact on the value of their holding.
Hedging instruments	The instruments used to perform the hedging in relation to a hedged share class.
Implicit transaction costs	Costs of the trading process that do not result from any fees being paid as a separately identifiable amount by one party to another. Nonetheless they represent an economic value transfer from an investor to a broker or investment bank. The bid/offer spread is a commonly encountered implicit cost, as most financial instruments are available at any moment to be bought at one price, but to be sold at a lower one.
Income retained in securities lending	The income retained by an investor from a securities lending programme, after any fees or income retained by a securities lending agent.
Income shared in securities lending	The amount of income retained by a securities lending agent for the operation of a securities lending programme.

Indirect fees	Payments deducted from the net asset value of a pooled fund.
Indirect transaction costs	Transaction costs incurred within pooled funds when they buy and sell their underlying investments. This is distinct from the direct transaction costs incurred by an investor in buying or redeeming units in a pooled fund.
Inflation swaps	A swap is a derivative contract through which two parties exchange the cash flows of one party's instrument for those of the other party. An inflation swap is used to transfer inflation risk from one party to another. One party pays a fixed rate on a notional principal amount while the other party pays a floating rate linked to an inflation index.
Inflows	New investments being made into a pooled fund.
Institutional investors	Large investors such as pension funds, insurance companies, sovereign wealth funds and endowments.
Interest rate swaps	A swap in which the counterparties agree to exchange interest rate cash flows based on a specified notional amount from fixed rate to a floating rate (or vice versa), or from one floating rate to another.
Internal rate of return	The interest rate that makes the sum of discounted expected cash flows from an investment equal to zero.
Investment Fund	A generic term for a pooled fund that is not a pension fund or unit-linked life fund.
Investment Fund Depositaries	Depositaries for a pooled fund hold and safeguard the assets of the fund on behalf of investors.
Investment Fund Trustee	The trustee of an authorised unit trust (AUT - a particular fund structure) has a duty of oversight over the Manager of the fund.
Investment Manager	The manager of investments in pooled funds or segregated portfolios on behalf of clients.
Investment Research	Research that is used by asset managers to inform the investment process.
Investment return – gross	The return on the assets in a pooled fund or segregated portfolio before any management fees (including any performance fees) have been deducted. The gross return is by definition net of transaction costs because it is impossible to generate a return without incurring transaction costs.
Investment return – net	The return on the assets in a pooled fund or segregated portfolio after any management fees (including any performance fees have been deducted). In other words it is gross return reduced by management fees.

Investment Trust	A public limited company whose business is the investment of shareholders' funds. The shares in an investment trust are traded like those of any other public company.
Invoiced fees	Management fees that are invoiced for separately as opposed to being deducted from a client's assets.
Issue price	The price at which units in a pooled fund are purchased by a new investor.
Key Information Document for PRIIPs (PRIIP KID)	A standardised pre-sale document that firms selling a PRIIP must supply to retail investors from 1 January 2018. It includes information on the impact of costs on an investment, past performance scenarios and risk measures/narratives.
Liability Driven Investment (LDI)	An investment approach designed to achieve desired risk and return targets relative to an investor's liabilities
Linear instruments (derivatives)	Derivatives whose price moves directly in line with movements in the underlying.
Liquidity	In the context of a financial market this refers to the extent to which assets can be bought or sold at stable prices.
Listing fee	Fees payable for listing on an exchange.
Management fee	The fee paid by the client for the management of its assets.
Market impact cost	The impact of a trade on the price of the security being traded. This represents a cost to the extent that it results in the price moving against a trade, but it does not represent an economic value transfer between two parties.
Market maker	A firm that undertakes the purchase or sale of securities against its proprietary capital at prices that it defines. This helps to facilitate trading in the security, hence the name 'market maker'.
Market spread cost	The frictional cost of buying or selling assets because of the existence of the bid/offer spread on securities.
Markets in Financial Instruments Directive II (MiFID II)	The original Markets in Financial Instruments Directive (MiFID) came into force in November 2007 and governs the provision of investment services in financial instruments by banks and investment firms and the operation of traditional stock exchanges and alternative trading venues. The revised version of the directive (MiFID II) comes into force from 3 January 2018 and aims to strengthen investor protection further while also attempting to improve the

	functioning of financial markets in the post-2008 financial crisis landscape.
Mid-market price	The mid-price between the bid and offer prices.
Multilateral Trading Facility (MTF)	An execution venue which is a non-exchange trading venue. They allow parties to trade amongst themselves, off exchanges.
Net Asset Value (NAV)	The value of a pooled fund's assets minus the value of its liabilities.
Non-linear instruments (derivatives)	Derivatives whose price does not vary in line with movements in the underlying.
Non-UCITS Retail Scheme (NURS)	NURS are funds that do not comply with all the conditions to which UCITS are subject. NURS can invest in a wider range of eligible investments and have fewer restrictions around borrowing.
Offer price	The price at which an investor can buy a security or a unit in a dual-priced pooled fund.
Ongoing charges figure (OCF)	The on-going costs to funds, including the management charge and other charges such as audit, depositary/custody and regulatory. The OCF is deducted from the assets of any relevant product.
Opening assets	The value of client/fund assets at the start of a given reporting period.
Order Execution Policy	MiFID's Best Execution rules require asset managers to produce an Order Execution Policy, which must include, for each class of financial instrument, information on the different execution venues where a firm executes its client orders and the factors affecting the choice of execution venue.
Order Management Systems	An electronic system for the execution of securities orders. Used by brokers and dealers when filling orders for securities.
Other transaction costs	These may arise in respect of real estate or private equity transactions. Such costs could include legal, valuation and accountancy fees, for example.
Outflows	Investments being redeemed from a pooled fund.
Over-the-Counter (OTC)	Financial instruments that are not traded on an exchange but instead on a bilateral basis between counterparties.
Packaged Retail and Insurance-based Investment Products regulation (PRIIPs)	A European product-level regulation which requires the production of a pre-sale Key Information Document for retail investors in collective investment schemes and packaged products offered by banks and insurers.
Payments for research	Payments made specifically by a client to fund a Research Payment Account under new MiFID II rules.

Pension Fund Disclosure Code	A code created by the IMA in 2002, last updated in 2007 and endorsed by the NAPF Investment Council, which provides pension fund trustees with information on how their asset managers make choices between trading counterparties and venues, more detailed information on how commission spend is built up and what services are met out commission spend. It also provides a comparison of client specific information on costs and trading with similar fund management firm-wide information.
Performance benchmark/hurdle	The agreed performance threshold that a manager must meet before any performance fee is payable.
Performance fees	An additional fee that may be paid to the manager if fund or portfolio performance reaches or exceeds a pre-agreed threshold.
Pooled funds	Collective investment schemes that pool together the assets of many investors. In so doing economies of scale can be achieved in managing client money.
Portfolio Turnover Rate (PTR)	A measure designed to show the extent to which a fund or portfolio's holdings have been turned over during the course of a particular reporting period. It is intended as an indicator of transaction costs (the higher the PTR, the higher the transaction costs incurred) but there are multiple measures and there is not necessarily a direct correlation between PTR and transaction costs.
Price transparency	The extent to which price information for a particular market or security is available.
Pricing policies	Pooled funds have pricing policies which describe how units in the fund are priced and, where applicable, what anti-dilution measures are used to offset the impact of dilution.
Professional clients	A category within the MiFID client categorisation regime. Professional clients are deemed to have high levels of experience, knowledge and expertise, and therefore require less regulatory protection than retail clients.
Property	Commercial and residential property is another asset class that is open to investors.
Property management costs	The costs of managing a portfolio of properties.
PTM levy	The PTM levy is a charge automatically imposed on investors, and collected by their brokers, when they sell or buy shares with an aggregate value in excess of £10,000. The charge is £1, and the money raised goes to the Panel of Takeovers and Mergers.

Purchases	The value of purchases made by a fund or in a portfolio over the course of a given reporting period.
Rebates	Any fees that might be rebated to a client.
Recommended holding period (PRIIP)	The time period recommended for holding an investment in the PRIIP regulation.
Recurring costs (PRIIP)	Payments deducted from the assets of an AIF or UCITS.
Redemption of units	When an investor chooses to disinvest from a pooled fund, units are redeemed.
Reduction in Yield (RIY)	The impact of charges on the expected returns from an investment product.
Repo transactions	This involves an investor selling some of its assets (e.g. gilts) to a counterparty whilst simultaneously committing to re-purchase the assets at a future date for a pre-set price. The cash thus raised is typically used to purchase more assets or for collateral management. The difference between the sale and (higher) re-purchase rate is the repo rate and represents a cost to the investor. It can be considered to be the interest rate on the loan that is effectively taken out. Repo transactions involving gilts typically take place in LDI strategies (see above).
Research costs	Costs associated with the provision of investment research.
Research Payment Accounts	Under MiFID II firms charging clients for investment research will need to do so from a Research Payment Account that can only be funded by a specific research charge to the client.
Retail investors	Generally speaking this term refers to individual investors investing in pooled funds (with or without an adviser) possibly through a tax wrapper such as a personal pension or an ISA. Retail clients are also a separate category within the MiFID client categorisation regime and are deemed to require higher levels of regulatory protection than professional clients.
Sales	The value of sales made by a fund or in a portfolio over the course of a given reporting period.
Securities lending agent	The operator of a securities lending programme.
Securities lending programmes	Securities lending is the short term loan of securities in exchange for collateral and fees. It may be used to provide modest enhancements to an investment portfolio's returns.
Segregated mandate/portfolio	A portfolio managed entirely on behalf an individual investor, typically institutional.

Service charges	Charges paid for a service to an asset manager or other intermediary in the investment chain; as opposed to the transaction costs of being invested in the market which are also paid by investors, but in this case to brokers and investment banks that make up the 'sell-side' of the capital markets.
Share class	These refer to different classes of units in a fund. The difference is typically in relation to management fees, currency or whether the units pay an income or re-invest any income generated.
Single priced fund with a dilution levy	A fund that trades at a single price and applies a separate levy to entering or exiting investors in order to mitigate the impact on the fund of dilution.
Slippage cost	The difference in the price at which an order is transmitted to the market and the price at which an order is executed. Typically used within equity market transaction cost analysis in order to measure the efficiency of trading; the FCA proposes to apply this measure for the purposes of transaction cost disclosure to DC pension schemes.
Stamp Duty	A transaction tax of 50 bps levied on the purchase of UK equities. A specific example of a more general class of transaction taxes.
Structured investment products	A pre-packaged investment product where the amount earned depends on the performance of a specific market or specific assets. Some structured investments offer a degree of capital protection, while others do not.
Summary Cost Indicators (PRIIPs)	The reduction in yield on a PRIIP due to its costs.
Swaps	A transaction in which two counterparties agree to exchange payment streams over time according to a pre-determined basis.
Swinging single priced fund	A pooled fund which deals at a single price, the level of which is 'swung' in order to protect ongoing investors in the fund from the impact of dilution caused by entering or exiting investors. The 'swing' performs the same role as a dilution levy.
Systematic Internalisers (SI)	SIs are investment firms that can match “buy” and “sell” orders from clients on its own book, provided that they conform to certain criteria, rather than sending orders to a central exchange.
Trading counterparties	The parties involved on the two sides of a trade in financial markets.

Transaction costs	The costs incurred in capital markets as a result of investing money. It is impossible to invest money without incurring transaction costs. Costs are explicit (money paid to another agent) and implicit (an economic value transfer from one party to another).
Transaction taxes	Taxes levied on individual financial transactions.
UCITS	Undertakings for collective investment in transferable securities that are established in accordance with the UCITS Directive. This directive establishes funds which can be sold across the EU under a harmonised regulatory regime. The directive sets out the eligible assets that UCITS funds can invest in, as well as setting out various standards around governance, information and investor protection.
UCITS KIID	The Key Investor Information Document (KIID) is a standardised pre-sale disclosure document that must be provided to investors in UCITS funds. It contains information on the fund's objectives, risk/reward profile, charges and past performance. From 2019 UCITS funds will be covered by the PRIIP regulation and will have to produce a KID in line with that regulation.
Unit holder	Investors in pooled funds hold units in the fund.
Unit-linked life insurance funds	A fund structure that in legal terms constitutes an insurance policy. Investors in the fund receive an insurance policy from the life company which creates liabilities directly linked to the fund. Although the assets in the fund are owned by the life company rather than the investor, the life company is responsible for ensuring that obligations under the policy can be met at all times.
Units	Pooled funds are divided into units, which are created by the fund manager. Investors buy and sell those units.
Volume traded	Refers to the volume of securities bought and sold over a given time period, for the purpose of establishing an aggregate cost of trading.
Volume weighted average execution price	Where an order is filled at multiple prices, the overall order price is calculated as the weighted average of the different execution prices with the volume traded at each price being the weights.
Withholding taxes (on distributions)	Taxes which may be levied on distributions from a fund or portfolio. These are distinct from transaction-based taxes.

Wrapped funds	A common way of creating a unit-linked life fund in which an underlying investment fund (or funds) is wrapped by an insurer. The life company uses investors' money to purchase units in an underlying investment fund (or funds) and in return issues insurance policies linked to these units to the investor. The life company can also invest the money directly in assets and create insurance policies linked to those assets. Such an investment is called a directly invested insurance fund.