

WIRRAL COUNCIL

PENSIONS BOARD

27 JUNE 2017

SUBJECT:	TRANSPARENCY CODE
WARD/S AFFECTED:	NONE
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides members with details of the Code of Transparency recently announced by the Scheme Advisory Board.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 It has long been recognised that, in addition to the fees paid for investment management, there are further hidden costs incurred that are difficult to ascertain and so rarely reported in most pension fund accounts. There have been a number of initiatives to provide greater transparency in relation to those hidden costs. Merseyside Pension Fund has been a longstanding supporter of transparency in many areas of corporate governance and investment, and has been a proponent for greater consistency in the disclosure and reporting of all costs.
- 2.2 In November 2015, DCLG set out its criteria and guidance for Investment Reform in the LGPS requiring administering authorities to bring forward ambitious proposals for pooling. One of the four primary criteria is cost savings and pools are required to report investment performance and cost savings. It is important that this is undertaken in a consistent way.
- 2.3 On 18 May 2017, the Scheme Advisory Board announced its proposals for encouraging greater fee transparency by investment managers. The Board views the move toward investment cost transparency and consistency as an important factor in the LGPS being perceived as a value-led and innovative pension scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and is included in the government's investment reform guidance and criteria for LGPS pooling.

- 2.4 The Code is a voluntary code and covers the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities.
- 2.5 To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board has worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code.
- 2.6 Under the Code participating asset managers will report their fees, costs and income using standard Templates issued by the Scheme Advisory Board. There are separate Templates for segregated and pooled funds. These Templates require asset managers not only to report basic and performance fees but a range of other costs where applicable (such as Transaction taxes, Broker commissions and entry/exit charges, all payments made to parties providing services to a pooled fund other than the asset manager such as the auditor), details of any income from Stock Lending and any ancillary services provided. Therefore, under the Code participating asset managers will provide a breakdown of both explicit and implicit costs in a standardised format.
- 2.7 The current Templates only apply in relation to listed asset classes. Templates for unlisted asset classes such as private equity will be developed in due course. It is envisaged that the Templates will develop over time to encompass other more challenging areas of cost transparency and will remain flexible to enable changes to meet the rapidly developing market for investment products. The listed asset Template may be amended from time to time to keep in line with the Investment Association's Disclosure Code.
- 2.8 To sign up to the Code an asset manager must write to the Scheme Advisory Board in a form set out by the Board. The asset manager agrees that for the investments covered by the Code it will within a period of twelve months put in place the systems necessary to enable the automatic submission of the relevant Template(s) to each individual LGPS Fund that the asset manager provides services to. The Template(s) must be submitted automatically (that is without an individual Fund having to make a request) on an annual basis.
- 2.9 The Code is voluntary but it is anticipated that it will be adopted widely and pension funds are engaging with asset managers to encourage their participation.
- 2.10 The benefit of the Code to individual LGPS funds is that it is assisting them to obtain cost data in a coordinated and consistent way. To obtain a fuller benefit, it is essential that the data is analysed and benchmarked to enable meaningful fee discussions with asset managers.

3.0 RELEVANT RISKS

- 3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The identification and collation of investment costs is a resource intensive exercise particularly in the area of unquoted investments and the fund is devoting considerable amounts of staff time and other resources to this exercise.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Board Members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Board to be kept informed of pension fund developments as a part of their role in supporting the administering authority.

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APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date