TISA

Response by TISA to:
Facilitating investment in illiquid assets

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry.** We have **over 240 member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings & Investment**. This reflects TISA's commitment to open standards and independent governance.

Executive Summary

TISA welcomes the opportunity to respond to the DWP consultation - Facilitating investment in illiquid assets.

We fully support proposals that require firms to clearly demonstrate that due consideration has been given to the appropriateness of illiquid assets within their default investment strategies. We would, however, question whether the location of the disclosure within the Chair's Statement is appropriate and have the desired effect. The document itself has several objectives to fulfil for various target audiences and is therefore large in size, time consuming and costly to construct and unlikely to be read by consumers.

The addition of another disclosure requirement only compounds the issues already associated with the statement and the objective and benefits of transparency are lost within reams of regulatory content. A sub-optimal location may also impact on the level to which schemes comply with the requirements, with it perhaps being viewed by some as a box ticking exercise.

We believe the Chair's Statement needs to be reviewed with format changes considered to potentially divide this up into different documents based on each objective and target audience.

Whilst the pensions landscape has changed significantly since 2005, we ae not aware that the ERI regulations create any investment barriers within today's market for Master Trusts. We should be mindful that they do exist for consumer protection and any relaxation could result in consumer detriment. Further research is required in this area and if it can be evidenced that Master Trusts are experiencing barriers to their investment strategies, we would be supportive in principle of some change to mitigate the issues.

We would be pleased to discuss any aspect of our response with you.

Question responses

Question 1: Do you support these proposals and agree with the government's rationale for intervention?

To clarify, we believe the target audience for the disclosures are primarily the professional community e.g. pension schemes, IFAs and EBCs, with an intention that these may also provide useful information to scheme members.

We fully support proposals that require firms to clearly demonstrate that due consideration has been given to the appropriateness of illiquid assets within their default investment strategies.

There are two perspectives to consider these proposals from:

1. Whether it places an effective and proportionate obligation on the scheme to actively consider and document their investment strategy, backed up with reasons for their decisions
2. Does it provide the target audience with additional transparency, enabling them to understand the scheme's attitude towards illiquid investment

These two are not mutually exclusive and if the location of the disclosure means it is not easily accessible, the requirement to fully consider and include meaningful information may be diluted to an extent. The SIP and in particular the Chair's Statement are single documents which are intended for multiple audiences with objectives of achieving multiple goals around governance and engagement.

Whilst the principle of transparency should always be appropriate to the target audience, the Chair's Statement now includes so many requirements and has become so long, any further disclosures included are likely to be lost in the detail and as such, become opaque. Given the time and costs involved for schemes to create this document, a fundamental review is required to consider the objectives it has and whether they could be met through a more effective approach or format.

Question 2: Do you agree with the scope of this proposal?

Yes, we agree with these only applying to the default funds of occupational DC schemes only.

Question 3: Considering the policy objective to require trustees to state a policy on investment in illiquids, how should we define "illiquid assets"?

Of the two options presented, our preference would be Option 2. This provides more transparency, a more accurate picture and may be easier for schemes to implement.

Question 4: Do you agree with the proposed aspects of a scheme's illiquid asset policy that we would require to be disclosed and timing of such disclosures?

If the statements have to include all of the proposed aspects, we do not think this could be effectively achieved within the restriction of 3 paragraphs. We do not believe there needs to be a restriction placed on the minimum or maximum length of the statement. Furthermore, we do not believe the content needs to be prescriptive. The aspects proposed should be treated as a list for guidance which would then allow trustees to construct appropriate wording based on their target audience.

Question 5: Do you agree with the proposed level of granularity for this disclosure? Are the asset classes and sub-asset classes proposed in the example above appropriate for this kind of asset allocation disclosure?

Yes, we agree with the proposals.

Question 6: Do you agree that holding £100million or more of total assets is an appropriate threshold for determining which DC schemes should be required to disclose asset allocation?

Yes, this aligns to the Value for Money (VfM) threshold. A single periodic review should determine eligibility to both VfM and 'Disclose and Explain' requirements.

Question 7: Do you agree that we should align the disclosures with the net returns' disclosure requirement?

We agree that in the interests of consistency, this should align to the net returns' disclosure requirements.

Question 8: Do you agree with the frequency and location of the proposed asset allocation disclosures?

Yes, we agree with the proposals.

Question 9: Please provide estimates of any new financial costs that could arise from the proposed "disclose and explain" requirements. Please outline any one-off and ongoing costs.

The final set of proposals will introduce additional costs to firms within the value chain. Whilst some may be absorbed, it is possible they may be passed onto scheme members.

Question 10: Do you think the current regulations relating to ERI in the 2005 Regulations present a barrier to Master Trusts expanding investment strategies to include private debt/credit?

We are not aware of any barriers or issues created by the existing 2005 regulations. Although the pension landscape has changed significantly since 2005, the regulations are there for consumer protection. We do not believe they should be altered, unless it can be evidenced that they are restricting Master Trust investment strategies and potentially consumer outcomes.

Question 11: Do the draft regulations achieve our policy intent?

The way in which Master Trusts are structured and refer to principle, lead or participating employers does vary across the market. Should the proposals be implemented, they need to be reflective of the different practices that are currently employed by schemes in this regard.

Question 12: Do you agree with the information presented in the impact assessment?

N/A