Department for Work & Pensions

Consultation Questions: Facilitating Investment in Illiquid Assets

Name of respondent(s)/organisation (please provide):

Tess Page, Chair, Defined Contribution Committee, on behalf of the Association of Consulting Actuaries Limited

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Please indicate, next to any responses given, if you are not content for DWP to publish relevant sections of your responses in the future. Without a specific request for anonymity, we reserve the right to publish your response in full.

We are content for all of our responses to be published.

Chapter 2: Introducing Disclose and Explain Policy Proposals

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

From a practical perspective, we see no issues with the additional requirements for the disclosures in the Statement of Investment Principles (SIP) and the disclose and explain policy for Chair's Statements.

From a member perspective, there is value in ensuring that individuals are able to access clear information in a consistent format across their various pension arrangements. The approach set out in the proposals supports this. We do however note that in our experience the Chair's Statement is not the "go-to" source of information for even the most engaged members – rather, other more frequently updated information on scheme websites and / or in the scheme investment booklet are more typical sources. We welcome the DWP's acknowledgement in 2021 that the Chair's Statement, in its current form, is not working as a document intended for multiple audiences.

From a trustee decision-making perspective, we are not convinced that being prompted to comment on policies on illiquid assets in the SIP will drive material interest and investment in illiquid assets. There is a danger that the wording becomes "boiler plate" in nature, for example by explaining that these assets are not used because charges remain high and availability of suitable vehicles remains low. At the margin, it may prompt discussion for some trustee boards. We have seen examples where other issues such as policies on climate change and other ESG risks and opportunities becomes "template" in nature rather than driving change.

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

As regards the SIP disclosures, we are comfortable that this should only be applied to occupational DC schemes and DC sections of hybrid schemes.

We would however be open to the disclosures being required to cover self-select funds rather than focusing on default arrangements. It can be "easier" to introduce illiquid assets as part of a self-select range (owing to there being fewer constraints on charges), and trustees being prompted to consider this may allow confidence to be built on such options in advance of future incorporation in a default arrangement.

The proposal does though open up broader questions regarding the purpose of the SIP and the behaviours that it drives – for example should DB schemes be required to comment on whether they have set a long term funding objective and how their investment strategy is aligned with this? Should climate change disclosures go further?

The term "default" will need to be clarified given that schemes may have a number of "technical" defaults. Consultations and guidance often refer to "the default", when frequently a scheme will have many funds that meet the legal definition of a default arrangement (noting as well the confusing differences between the definitions of defaults for the purposes of the charge cap and DC governance). For materiality, we would favour any policy and disclosure requirements focussing on the scheme's main default arrangement used on an ongoing basis for auto-enrolment purposes.

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

We support the proposed Option 2 (definition at the asset level rather than the access vehicle). This "look through" approach better reflects the nature of the underlying exposure, and is also likely to be easier to communicate to members.

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?

We believe the proposals are appropriate.

Question 5: Do you agree that 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?

We are very supportive of consistency but with allowance for flexibility to recognise the unique circumstances of different schemes.

Regarding the asset class categories, we support simplicity where possible – showing a large number of asset classes can be confusing. However, it does raise questions around what is "important" enough to show. For example, the proposal shows a breakdown of different illiquid assets in reasonable detail, but there is no requirement to split, for example, developed and emerging markets exposures (or indeed any geographical details). Our preference would be to include an all-encompassing "less liquid assets" category (rather than splitting between component parts) with flexibility for schemes to provide a footnote / narrative on the types of illiquid asset used. This also reflects that for those schemes using illiquid assets in any meaningful way, our experience is that often a multi-asset illiquids solution is being used.

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

Whilst we recognise the cost and governance burden that the proposals would bring, our preference would be for all schemes to be in scope, rather than limiting the new transparency to larger schemes. This may also be a further tool to prompt smaller schemes to consider consolidation options.

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

Yes, on the grounds of consistency. We would though welcome a "years from retirement" model rather than age-based approaches – this becomes increasingly relevant as a member approaches their target retirement age, and is how many schemes communicate their default arrangements.

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

Yes on location and annual frequency, with appropriate notes making clear to members that the information can change within the year (and links to where they can find more up to date information, which many schemes provide through quarterly factsheets, for example). We find the "average allocation" during the year potentially overly complex and backward–looking - our preference would be to show the strategic allocation as at the scheme year end, representing the most up-to-date information and therefore most relevant for the future. For example, if a scheme made a material change to their default arrangement during the final quarter of the year, the average will reflect an "old" approach. If a member uses the information to inform their investment decisions this can be misleading.

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.

Broadly speaking the costs to trustees will be associated with: **Trustees (noting that the below will typically be carried out by advisers)** Trustee training / understanding the new requirements Additional data gathering Additional time spent checking investment manager information for consistency More time spent preparing the Chair's Statement (already a substantial process) Time aligning the format with other member communications **For investment managers and platforms** Providing data outputs across funds using the asset class categories prescribed, and answering questions that may arise. Our experience is that the types of investment managers offering illiquid funds are less willing to flex their reporting for UK DC scheme requirements.

Chapter 3: Employer-related investments – Consultation on draft regulations

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?

Some of our member firms offer master trusts, and others advise on master trust selection. Our experience is that the current regulations are not a barrier. We have detailed in prior consultation responses our view that the barrier is more typically cost and market competitiveness.

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

Yes.

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

We believe that the benefit to members in the assessment is overstated.

Our experience is that for the majority of master trusts the employer-related investment restrictions have not posed a significant administrative burden historically. We also believe it unlikely that the administrative burden has been a contributor to master trusts not pursuing other investment opportunities and projects. As a result we think it therefore unlikely that any cost savings would be sufficient to be passed onto members through lower charges.

Whilst we agree that the draft regulations have the potential to improve flexibility we do not see this as the main barrier to private debt / credit allocations. Therefore, in isolation we think the draft regulations will have little impact on a master trust's approach