

FCA consultation on new value for money framework

What you need to know

- The Financial Conduct Authority (FCA) is consulting on proposed rules and guidance for a new value for money (VFM) framework.
- The proposals represent the culmination of several years' work and a previous joint consultation by the FCA, The Pensions Regulator (TPR) and the Department for Work and Pensions (DWP) to implement a framework to assess and compare, and ultimately improve, the value delivered by all workplace defined contribution (DC) schemes.
- Whilst this consultation relates to rules for FCA-regulated firms operating contract-based pensions, the DWP intends to introduce corresponding legislation for DC trust-based schemes in the forthcoming Pension Schemes Bill.
- Once the framework is implemented, all in-scope schemes will be required to report against specific metrics and use this data to assess their scheme's value against market comparators.
- The consultation runs until 17 October 2024, with trustees of trust-based schemes encouraged to respond. Responses will be considered jointly with the DWP and TPR to support a consistent approach across contract and trust-based schemes.

Actions you can take

- **Consider** what 'good' looks like and how your scheme compares. In particular, consider investment outcomes, scope and quality of services provided as well as costs.
- **Start discussions** between relevant parties to agree the future direction of your DC scheme – if you have a trust-based scheme, do you continue to govern or do you consolidate.
- **Decide** whether to formally respond to the consultation before the 17 October 2024 deadline.

Key elements of the new framework, at a glance

Four stages of VFM framework	Brief summary of what this might mean for FCA regulated firms and trust-based schemes
1. Consistent measurement and public disclosure of comparable metrics	In-scope arrangements to disclose data on investment performance, asset allocation, costs and charges as well as service quality. The data must be published by 31 March each year, covering the period up to 31 December of the previous year.
2. Assessment of performance against other arrangements on a consistent and objective basis	The scheme's governing body must use the data to carry out a comparison with the arrangements offered by at least three other providers/schemes – at least two of which have total DC assets above £10 billion.
3. Public disclosure of assessment outcomes	Each arrangement to be given a 'Red-Amber-Green' (RAG) VFM rating. An amber rating indicates that the arrangement can be improved within a 'reasonable period of time' to deliver VFM, whilst a red rating means that it cannot or will not be improved within a reasonable period of time.
4. Specific actions where an arrangement is assessed as 'not VFM' (i.e. red or amber)	Arrangements assessed as 'amber' must take action to deliver improved VFM 'within a reasonable period'. Arrangements assessed as 'red' must consider transferring affected savers to an alternative arrangement. Multi-employer arrangements assessed as 'red' or 'amber' will be not be allowed to take on new business.

The finer detail: New framework in more detail

Overall aim of the new framework

The proposed measures are part of the Government's goal to drive consolidation (by reducing the number of savers in arrangements delivering poor value), improve member outcomes and lead to more investment in UK productive assets.

In-scope arrangements

The proposed framework would cover the following FCA-regulated arrangements:

- 1) default arrangements used for auto-enrolment that have been operating for at least one calendar year; and
- 2) legacy arrangements used by 80% of an employer's active and deferred members (as at 31 December after the VFM framework has come into force).

Broadly, an arrangement with fewer than 1,000 members will be out of scope. Our expectation is that all trust-based schemes may be in scope when the DWP introduces corresponding legislation.

Performance assessment

The scheme's default arrangement must be compared against at least three comparator arrangements that are believed to offer good value – at least two of which must have total DC assets above £10 billion. At least one comparator must be contract-based, the other trust-based, and – to support consistent selection – at least one must be the same as the previous year.

'Traffic light' VFM rating

To achieve a 'green' rating (i.e. assessed as providing value), an arrangement must not be materially worse on either investment performance taking account of risk, or service quality against its comparators, nor should its costs and charges be materially higher if all other performance remains similar.

Arrangements assessed as red or amber will not be allowed to take on new business, whilst those identified as amber must take action to deliver improved VFM 'within a reasonable period'. (Although 'reasonable period' is not defined, the FCA suggests that more than two years after the date of assessment is unlikely to be reasonable.)

Disclosure of data and assessment outcomes

The FCA proposes reporting cycles be based on calendar years, with firms required to publish their collated VFM data by 31 March, covering the period up to 31 December of the previous year. In total there are over 200 data points to be collated covering investment risk and return metrics, scheme costs and the quality of services provided.

For FCA-regulated firms the outcome of the assessment must be disclosed in the IGC Chair's annual report, which must be published by 31 October each year.

Actions for 'poor VFM' arrangements

Where the governing body identifies an arrangement as 'red' or 'amber', proposed actions include:

- 1) communicate that rating to any contributing employer;
- 2) create and submit a firm action plan to address poor value and submit this to the FCA; and
- 3) in the case of a 'red' rating, consider transferring affected savers to a better value arrangement.

Asset types and allocations

The consultation includes proposals for greater disclosure of asset classes, including allocations to illiquid private market asset classes.

Find out more

For further information, please get in touch with **Sophia Singleton** or **Neil Maines** or speak to your usual XPS Group contact.



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