# What can the UK learn from Dutch standardised reporting?

*In the UK post "freedom and choice" world, where individuals have greater control over their retirement and pension options, costs and fees on pension scheme investments are likely to be a central issue. It has long been argued that many of these are unobservable or not calculable. This impossibility case was also argued in the Netherlands, but the Dutch Financial Assessment Framework (FTK), a form of required regulatory reporting which includes costs and fees, was born and schemes have been able to comply.*

The Dutch FTK has a standardised form of reporting, which is employed by pension schemes in the Netherlands. A DNB spokesman stated that the purpose of this reporting is to ensure pension funds "have a solid financial structure that connects to the management and communication of the pension fund."

FTK reporting uses market valuation for assets and discounted present values for liabilities. The discount rates used in Holland are a EUR zero coupon swap curve and the Ultimate Forward Rate specified by the DNB, which differs from the rates for either accounting or regulatory reporting in the UK.

### Differences

Although these differences may make UK reporting less directly comparable than in the Netherlands, it is still possible. The Dutch pensions system requires that schemes are at least funded to a certain minimum level; in other words "regulatory own funds" or capital buffers, very much like the excess capital requirements of Solvency II for insurers or bank capital adequacy requirements.

The Dutch pensions market is still very different from the UK in terms of "DB" arrangements, as there is no specific recourse to the sponsor employer. In the Netherlands, it is scheme members who bear the fund performance risks while in the UK, this is assured by recourse to the sponsor.

There are many other differences between the Dutch market and the UK; for example, many schemes are still open to new members, though whether this is cause or effect of other differences is difficult to determine. The regulatory own funds level is determined using a risk-based approach meaning the minimum funding level is higher for a fund that bears more risk.

Reports of increasing complexity and completeness are made under the FTK; at different frequencies; from monthly assessments of the funding level to more complex quarterly returns, and the complete annual valuation of status and performance.

Transparency is both a key component and result of FTK reporting. If these reports do not convey a clear picture of the pension fund's financial position, then the governance obligations of the fund board and the regulator cannot be fulfilled. This regime is designed with performance, cost and predominantly risk in mind.

*SCM Wealth Managers have stated that a total of £18.5bn is being taken from the UK pensions market annually in hidden charges.*


### Cost transparency

Cost transparency is a popular topic in both the UK and Netherlands, and there is a mounting body of academic analysis and empirical evidence as to the form and levels of costs. The difficulties of estimating some implicit costs are not trivial, but a move towards standardised methods could reduce these to manageable proportion. These studies have produced a wide range of rather worrying results: for example, administration and investment costs for 80% of Local Government Pension Schemes have risen 169% since 2011; SCM Wealth Managers have stated that a total of £18.5bn is being taken from the UK pensions market annually in hidden charges; the Pensions Institute estimated that bid-ask spreads and other forms of transaction costs account for 85% of pension funds' total transaction costs.

### Debate in the UK

Debate in the UK has been fuelled by a consultation paper from the DWP and the FCA ('Improving Transparency in Workplace Pensions'), which was itself driven by the statutory requirements on disclosure imposed on independent governance committees. This paper was accompanied by a report prepared by Novarca, which suggests that an asset-class level approach could be one effective report format. Dutch FTK reports utilise this type of approach.

Transaction cost analysis is required in the annual FTK reports. The thorny question of implicit costs for transactions not conducted on an agency basis has been resolved by standardisation of estimates. The Pensioenfederatie (Pensions Federation) in the Netherlands has produced a matrix of transaction cost estimates for different asset classes and the use of these estimates is compulsory if the actual cost is unknown. These cost estimates are conservative and widely believed to be overestimates. However, this does not affect portfolio net asset values, though they do reflect on the efficiency of investment manager performance production.

There are definitely arguments to be made for and against a standardised form of reporting in the UK, just as much as there would be questions over how in depth these reports should go. It also begs the question of whether a transaction cost matrix would in fact create an environment of better cost disclosure among the asset management industry or would it just serve to further cloud the true nature of such costs?

*Thomas Hibbard*
*KAS BANK UK Branch*