

29 March 2007

Secretariat to the Review of Pensions Institutions  
The Adelphi  
Level 3  
1-11 John Adam Street  
London  
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Dear Sirs

**Review of Pensions Institutions  
Consultation Paper: emerging issues**

The IMA represents the UK-based investment management industry. Our members include independent fund managers, the investment arms of retail and investment banks and life insurers, and the managers of occupational pension schemes. They are responsible for the management of approaching £3 trillion of assets (based in the UK, Europe and elsewhere), including authorised investment funds, institutional funds such as pensions and life funds and a wide range of pooled investment vehicles.

While the questions posed in the above consultation paper are largely outside of the IMA's remit, we do have comments on some specific points.

**Bringing FSA and TPR closer together (paras 25 – 29)\_**

The IMA would agree that the respective functions of the FSA and TPR should remain as now. In particular it would be most unfortunate if the Solvency 2 regime were applied to pension funds. It is the case that long term saving, including occupational DC provision, is moving increasingly towards a model based on investment rather than the risk pooling implied by DB provision and traditional with-profits saving products. But we agree that the focus of the two regulators is different, with the FSA concerned with the supervision of and conduct of business by investment firms, and the TPR with the operations of employer-based occupational schemes. Both organisations are still bedding down and it is difficult to see what benefits would accrue to justify the upheaval costs of any further change in responsibilities.

**Impact of pension reform (para 37)**

There will likely be three specific areas that involve employer-facing compliance activity:

1. Policing the exemption mechanism for employers whose schemes are of a sufficient standard to allow them to remain outside the Personal Accounts system.
2. Ensuring that the correct employees have in fact been auto-enrolled into the Personal Accounts system, where firms are not exempt.
3. Ensuring that the correct amounts of money (i.e. the minimum statutory requirements) are being paid at the correct frequency by participating employers. This is not a simple task given that it is a statutory contribution based on banded earnings. In this respect, it is of a far different nature to current collection issues that tend to arise in the DC environment (late contributions, problems with errors and reconciliation etc.).

It is not clear where responsibility for the three tasks will fall. It may be that TPR has overall regulatory responsibility if, as is currently proposed, the Personal Accounts system is designated an occupational scheme. However, it is not obvious that TPR is equipped to regulate these areas and some of the specific tasks might be delegated to other agencies. It would, for example, seem logical for employer exemptions to be dealt with alongside HMRC's current process of occupational scheme approval. Equally, contribution and auto-enrolment compliance could also potentially be handled as part of existing HMRC inspection processes.

With respect to other forms of compliance, IMA expects that firms involved in the main operational components of personal accounts (i.e. account administration, asset management, depository functions etc.) would be authorised and regulated by the FSA.

#### **Changes to FSCS functions or boundaries (para 35)**

The IMA agrees that there is no need to revise the functions and boundaries of the FSCS.