

IMA Chairman outlines key lessons for asset management industry



Robert Jenkins
Chairman

“If we don’t understand it, we shouldn’t buy it and if our clients can’t understand it, we shouldn’t sell it.”

The financial sector has been undergoing one of its most tumultuous periods in recent memory due to the credit crunch, but it’s not too late for the industry to learn a few valuable lessons from the last 12 months, says Robert Jenkins, Chairman of F&C Asset Management and Chairman of the IMA.

Speaking at the IMA’s annual dinner in May, Mr. Jenkins warned that the crisis was not yet over but that should not stop the asset management industry from improving its understanding of what went wrong and learning from it sooner rather than later. This is crucial if the industry is to avoid falling into the same trap as the private equity and hedge fund sectors, which have both suffered significant damage to reputation and, as a result, a greater level of public scrutiny. *“This means acting responsibly and not allowing, let alone encouraging, expectations which we cannot meet,”* said Mr. Jenkins. *“If the time comes when we are under the same level of scrutiny we must not have failed to deliver on our basic mission and we should have been clear about what that mission was.”*

The first key lesson for those working in the asset management industry was highlighted as the need to fully understand the

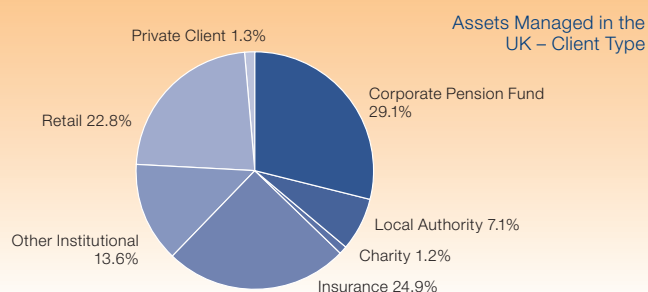
products they are buying and selling. *“If we don’t understand it, we shouldn’t buy it and if our clients can’t understand it, we shouldn’t sell it”*, he advised.

During his speech, Mr. Jenkins also emphasised the role the industry plays in the economy in managing customers’ money and facilitating saving, and that it is crucial to put the interests of investors above anything else. In particular, he cautioned against following trendy products. *“While it is perfectly understandable that fashionable products are often launched when times are good, we have a duty to remain vigilant to the effects of such fads.”*

And a final lesson for the industry is that it must not make promises that it cannot be certain to deliver on. *“We cannot guarantee or promise to make people rich”*, said Jenkins. However, the industry can offer savers a professional service that allows them to maintain and increase their wealth by accessing markets and buying into a range of assets that they would otherwise be unable to on their own, and diversify their savings in a cost effective manner. The industry has a responsibility to ensure that its products are packaged appropriately.

Fascinating Fact 1

Assets managed in the UK by all IMA member firms totalled £3.4 trillion as at December 2007. This is one third of all assets managed in Europe.



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IMA will publish its annual Asset Management Survey in August. We have included 5 ‘Fascinating Facts’ from the survey.

Industry concerns for future of defined benefit pensions

The Investment Management Association will publish its annual survey of the UK industry in August. One of the clear themes to emerge this year is a renewed concern for the future of Defined Benefit (DB) pension schemes in the light of proposed changes to accounting standards.

While the proportion of total pension assets invested in DB schemes still vastly outweighs that invested in DC (Defined Contribution) schemes, there has for some years been an increasing proportion of new money going into the latter type of scheme. But there is now a widespread belief that new proposals from the UK's Accounting Standards Board could potentially kill off DB pensions altogether in the UK.

In technical terms, the proposal is that the discount rate used to report pension liabilities in sponsor's accounts should change from the corporate bond rate under FRS17 to a risk-free rate. This would have the effect of increasing reported liabilities and hence the size of pension deficits, even though nothing else would have changed.

One asset manager interviewed by the IMA summed up the problem:

"We are concerned about the seeming inevitability of the death of DB. I think that the industry, indeed society, is sleepwalking into sacrificing what has been an extraordinarily effective system."

The IMA believes it is important for the Government to recognise the dangers and ensure that the wider potential impact is not overlooked amid what is a highly

complex and technical discussion about accounting standards.

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IMA calls for Annual Management Charge for Personal Accounts

The Investment Management Association has responded to the Personal Accounts Delivery Authority's (PADA) consultation 'Building personal accounts: choosing a charging structure' by calling for an annual management charge to be the basis for Personal Accounts charges.

While acknowledging that there is "no single formula or 'magic bullet' that will satisfy all considerations equally", the IMA believes that an annual management charge (AMC) is the most favourable option. IMA Chief Executive Richard Saunders says:

"Given the public scrutiny that Personal Accounts is likely to come under, any charging formula that appears unfair to consumers could damage perceptions of the Personal Accounts scheme. It is, therefore, essential that the charging structure is fair, simple and transparent, while also being readily comparable with commercial products and schemes. This is why an annual management charge structure is the best option."

The IMA does not feel that a contribution charge on its own is a desirable or viable option. First, it is not directly compatible with wider charging structures in the industry, which could present a range of challenges for participants. Second, because revenues would be based on a different structure to costs, severe commercial challenges for PADA and the Board could arise in the event that there was any substantial disruption to projected contribution flows and/or the underlying cost base of the scheme. This could impact both the administration and investment management side of the Personal Accounts system.

Although the IMA is not in favour of a joining fee, which could have considerable presentational difficulties, it accepts that

some sort of hybrid option, which would combine an AMC with some other form of levy may be necessary, particularly because an AMC on its own could potentially present difficulties in terms of meeting the initial funding requirements of the scheme.

Richard Saunders
Chief Executive



"It is essential that the charging structure is fair, simple and transparent, while also being readily comparable with commercial products and schemes."

IMA welcomes new banking reform proposals

The Investment Management Association strongly supports planned reforms to the banking system and is calling for them to be implemented quickly.

The joint HM Treasury, Bank of England and FSA proposals are intended to strengthen the framework for financial stability and protect depositors. In particular, the IMA is pleased to see the inclusion of two vital reforms – a higher level of depositor protection and the Special Resolution Regime, which will, in the event of any bank failing, allow depositors to get access to their money immediately.

In our response to the tripartite consultation paper in April, IMA stressed the importance of a higher level of depositor protection as a necessary step towards restoring both public and market confidence in the banking system in the wake of the Northern Rock debacle.

The exact level of depositor protection that will be finally introduced is still a matter for consultation, but the IMA has already called for the limit to be raised from the current £35,000 to £50,000. This would not only create a more credible regime but also a more financially robust one, which would build upon the strengths of the existing Financial Services Compensation

Scheme. Guy Sears, Director of Wholesale at the IMA, says;

“A rise in protection to £50,000 is not beyond the capacity of the banks and would provide significant underpinning for consumer confidence in the financial system.”

Furthermore, we are urging the Government to introduce as quickly as possible the pre-funding of deposit protection as this is also critical to renewing investor and depositor confidence in the banking sector.

Fascinating Fact 2



IMA research estimates that around 14% (£460 billion) of the total UK assets under management are managed in Scotland.

Outlook for European reforms improving

An important step forward has been taken with the publication of the draft “UCITS 4” Directive, which will introduce a series of reforms allowing investment funds to be sold more readily across the European single market. The future of this Directive had been in doubt after EU Commissioner Charlie McCreevy declined to include the full “management company passport”, which would allow fund management firms to locate funds in centres like Dublin and Luxembourg without having to maintain a presence there.

The Directive was published on 16th July. This leaves just about enough time for the Directive to complete its passage before the European elections and the end of the current Commission in June 2009. The draft does not include the passport, but the Committee of European Securities Regulators has been asked to produce advice on how it could be included.

The French government, which assumed the Presidency of the European Union on 1st July 2008, has indicated that it wishes the directive to include the passport. The IMA has made it clear that although we want to see the eventual introduction of a passport, its absence at this stage should not hold up progress in other areas.

The IMA together with EFAMA (The European Funds and Asset Management Association) have urged the French Finance Ministry to progress the Directive as quickly as possible. At the same time it is working with the European Parliament, both British MEPS and the “rapporteurs” for the Directive to ensure support from the Parliament. In this way we hope to achieve the very real benefits for European industry and consumers of the Directive, and to allow discussion to progress about the form in which we may be able to proceed with the passport.

Fascinating Fact 3

30% of total assets managed in the UK (over £1 trillion) are managed on behalf of overseas clients as at December 2007. This makes an annual contribution of £2.5 billion – £3 billion to the balance of payments.

IMA urges introduction of a pan-European private placement regime

The IMA is disappointed that moves towards the introduction of a pan-European private placement regime appears to have stalled.

It is now almost two years since the IMA appealed to the EU Commission to eliminate barriers to the cross-border marketing of investment funds to professional investors. A more unified regime throughout Europe is a necessity because the current lack of consistency – with well functioning legal frameworks in some Member States and very restrictive rules in others – means that products are available in some markets but not in others. This limitation in both product choice and access to certain markets is, therefore, denying institutional investors economic

opportunities to diversify their portfolios. Furthermore, the inconsistency in the legal and regulatory framework across the EU is incurring extensive, and unnecessary, legal expenses and risks. The lack of a single regime is also putting the investment funds market at a competitive disadvantage to other financial services products.

The Commission is not yet convinced of the benefits of a pan-European regime and now seems likely to undertake further research and an impact assessment of a unified regime before it moves forward.

Jarkko Syyrilä, Director of International Relations at the Investment Management Association, comments:

“The current lack of European rules represents a clear single market failure by denying economic opportunity to professional investors in many European markets who are unable to benefit from diversification through foreign investment funds. IMA will continue its work to convince the Commission of the need to introduce a pan-European regime as soon as possible. We recognise, however, that any legislative action on this topic will now be up to the next Commission to initiate during its tenure from the second half of 2009.”

Fascinating Fact 4

The investment management industry accounts for an estimated 0.6% of GDP and generates approximately £3 billion in tax revenue every year.

Investors continue to show caution

IMA fund statistics for 2008 to date illustrate that investors are still showing a cautious approach to investing in light of the continuing uncertain market conditions.

Net retail sales show a shift in investor preference for less risky asset classes such as bonds. Balanced funds (a mix of bonds and equities) also remain popular with retail investors. The flight from equity among retail investors in the first 3 months of the year was followed by a positive month in April and less dramatic outflows in May.

UK domiciled investment fund ISAs continue to record outflows with the usual positive sales in April as investors rush to capitalise on tax-free savings benefits before the end of the tax year. ISA investors also showed caution with Cautious Managed funds proving to be the most popular sector.

Fascinating Fact 5

IMA members manage on behalf of their clients 44% of shares listed on the London Stock Exchange.

Do you want to know more about the work of the IMA? Do you want to meet with one of our experts to talk over an issue in detail? Do you have a comment on anything in this edition of imag? The IMA would be delighted to hear from you.

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