



INVESTMENT MANAGEMENT ASSOCIATION

PENSION FUND DISCLOSURE CODE

September 2007

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INVESTMENT MANAGEMENT ASSOCIATION

PENSION FUND DISCLOSURE CODE

1 Introduction

The objective of the Pension Fund Disclosure Code (“the Code”) is to promote accountability of fund managers to their clients through increased transparency and to assist pension fund trustees’ understanding of the charges and costs levied on the pension fund assets for which they have responsibility. The Code provides a comprehensive, clear and standardised form of disclosure that will allow trustees and their advisers to monitor and compare all costs incurred during the management of their fund’s assets.

The Code provides pension fund trustees with information on how their investment managers make choices between trading counterparties and trading venues, more detailed information on how the resulting commission spend is built up, and what services are met out of commission spend, in particular such execution and research services as are permitted by the Financial Services Authority (FSA). It also provides a comparison of client specific information on costs and trading with similar fund management firm-wide information.

The Code was first adopted in May 2002. It was amended in March 2005 with the addition of information on dealing commissions, responding to the introduction of new rules by the FSA. This third version of the Code brings it into compliance with the execution provisions of the Market in Financial Instruments Directive 2004/39/EC (“MIFID”) and the implementing directives. MiFID requires that appropriate information should be supplied to clients on the investment manager’s order execution policy. The disclosure information specified in Level 1 to this Code should satisfy this requirement.

The IMA has no legal authority to impose standards or reporting requirements on its Members. Neither would it wish to propose aspirational standards that few managers would be able to attain without significantly increased operational costs, or that would provide relatively little additional benefit for trustees. In some areas the Code does not set out absolute standards, but sets out minimum standards to determining the information needs of trustees and their advisers. These needs will, of course, not be the same for every scheme. The Code also proposes a common format, which may be expanded, to suit users and providers.

The Code has been adopted by the IMA after full consultation with its members and has been endorsed by the NAPF Investment Council.

2 Scope

The Code is designed to:

- be adopted by the managers of UK pension fund mandates.

- be applied to portfolios, or portions of portfolios, consisting of listed securities (including suspended securities previously listed), derivatives (where the underlying instruments are securities, financial indices, interest rates, dividends or foreign exchange), cash and pooled funds/collective investment schemes that invest in any of the above assets.
- address all explicit costs incurred by client pension funds, including broker commissions, fund management and custody fees, foreign exchange charges, bank charges, taxation (stamp duty, VAT etc) and any other costs.
- explain the management of implicit execution costs

In respect of those pooled funds/collective investment schemes managed by the manager or an associate, the Code provides that managers should disclose the costs incurred at the fund level. The disclosure of costs should be accompanied by appropriate commentary to put the statistics into context, e.g. where the size of the pooled fund has changed significantly during the period. Where managers use third-party funds these costs should also be disclosed at the fund level. This information however, may only be available annually. The Code requires prominent disclosure of any proportion of the portfolio that is invested in funds which have not complied with the Code, with an explanation of why the manager believes it is appropriate to use such vehicles.

3 Disclosure Requirements

The Code requires quantitative disclosure of investment management costs. For implicit costs which cannot be measured with certainty e.g. transaction costs, a description of the manager's approach to handling them is required. The Code seeks to encourage disclosure of all such costs without advocating any particular measurement methodology as to how this is achieved. There is, however, a requirement to state key aspects of methodology, so that informed readers can draw their own conclusions as to the usefulness of the narrative information presented.

To ensure that the statistics are put into appropriate context, it is necessary for trustees and their advisers to understand the rationale behind, and justification for, different costs and how these are accounted for. Consequently, there is also a need for disclosure of certain aspects of managers' trading processes, and not just of numbers alone that might otherwise be taken out of context.

It is both permissible and desirable that different house fund management styles, products and specific client requirements result in varying types of reporting. If any particular costs addressed by the Code are on occasion not relevant, or are perhaps more clearly explained by narrative rather than quantitative reporting, this should be noted in the relevant reports.

There are two distinct types of disclosure covered by the Code:

- Level One: house policies, processes and procedures in relation to the management of costs incurred on behalf of clients and, in respect of new provisions brought in by MiFID, appropriate information on the investment manager's execution policy (see Appendix 1).
- Level Two: client-specific information (see Appendices 2 and 3). The most important requirement here is for disaggregation of transactions by counterparties and for the disclosure of the amount of commissions generated on those transactions and the services received in exchange for these commissions. Additional commentary should be provided where this helps to put numerical disclosure into context. It also requires managers to disclose, in percentage terms, the firm wide pattern of trading and sources and uses of commission for **all** clients in that asset class and to compare that to the specific client.

The Code sets out minimum standards, and managers can only claim compliance with the Code if they meet all the required disclosures: they do not have the option to select the sections of the Code to which they wish to adhere. A manager may, however, still be deemed to have complied with the Code in the event that particular provisions of the Code are not relevant to the business that the manager undertakes, and the manager has clearly stated and justified this position. Managers may also, however, wish to produce additional information which they believe is helpful for their clients e.g. information on turnover.

The Code envisages that the frequency of client reporting will vary according to the type of disclosure. Level One disclosure should be updated annually, while the quantitative client-specific Level Two disclosure should be made at least six-monthly. In the event of any material Level One changes, these should be reported promptly to clients, not left until the next annual reporting date. More generally, clear, consistent, consolidated reporting is regarded as crucial (see Guidance in Appendix 4): it will not be helpful to trustees if managers disclose the various costs listed in the Code, in a number of different reports or with different reporting dates.

Managers responsible for mandates of a number of different portfolios or asset classes for one scheme should carefully consider whether it would be more helpful to the trustees if reporting were at portfolio or asset class level.

APPENDICES

1. Level One Disclosure requirements
2. Level Two Disclosure requirements
3. Disclosure Table
4. Guidance for Completion of Table
5. Glossary

APPENDIX 1

LEVEL ONE DISCLOSURE

MANAGER'S EXECUTION POLICIES, PROCEDURES AND CONTROL PROCESSES

Reporting Period to which Disclosure Relates:

Selection Processes:

- Execution Venues and Methods of trading

Disclosure should address the following:

- Description of the various execution venues used with reasons e.g. broker/dealers, crossing networks, direct market access etc.
- Description of trading strategies e.g., net trading, execution only, agency trading, principal trading, internal crossing and programme trading
- Description of the decision making process in the choice of venue and the relevant factors influencing that decision, i.e. the investment decision, the choice of venue and how that is informed, the delegation of the trade, the assessment of anticipated explicit and implicit costs, and the quality assessment of the trade after execution
- Description of how the manager ensures best execution for clients with reference to the factors identified in MiFID (price, costs, speed and likelihood of execution and settlement, size, nature of order) and to any other factors not identified in MiFID that may be relevant. The relevant importance of the factors will be laid out in the manager's execution policy
- Provision of information on those venues that the investment manager believes enable him, on a consistent basis, to obtain the best possible result for executing orders (this could be a subset of the venues mentioned in the first bullet point above)

- Broker Selection

Disclosure should address the following at the firm level:

- The manager's broker selection process, how often it is conducted, the relevant factors involved in the assessment and controls put in place to address counterparty risk
- Description of how targets are established for future levels of business, and how this is allocated between commission bearing and net business
- Use of commission sharing arrangements
- An indication of when the broker will, in MiFID terminology, act as an execution venue, or as an agent for the investment manager, or both

- Broker Review

Disclosure should address the following:

- Frequency and content of broker reviews

- Description of the firm's negotiation process with counterparties when arriving at an ex-ante "At Full Service" commission rate for agency trades
- Description of the firm's negotiation process with respect to agreeing on an ex-ante basis the execution component of the "At Full Service" rate of commission and to agreeing on services received for the residual
- Monitoring process of the business transacted against targets and how the outcome may differ from original targets, either in monetary terms, in trading patterns or in the commission split

It is to be expected that the process of broker selection and review will differ between different firms, reflecting the differing size and complexity of the investment management firm.

Variations in Rates of Commission:

Disclosure should address the following:

- Range of commission rates paid (in basis points) across asset classes at the firm wide level
- Description of how different trading strategies affect the firm wide rate(s)

Commission Recapture/Directed Commissions:

- Managers should disclose participation in commission recapture and/or directed commission programmes
- Managers should disclose whether the programme is run in-house or whether it is the client's programme. Where it is the latter, managers should disclose, if possible, whether it is a client/broker arrangement or whether it is a client/third party/broker arrangement
- Managers should note where they are acting under specific instructions from clients regarding the use of a specific venue or broker

Dealing Efficiency Monitoring:

Disclosure should address the following:

- Policies and procedures for monitoring transaction costs
- Assessment of the impact of implicit costs e.g. bid/offer spread, market impact and opportunity costs
- Any use of third party transaction cost analysis services and how the results are used
- How often dealing efficiency is formally monitored

Conflicts of Interest:

Disclosure should include the following:

- Procedures for identifying conflicts of interest when transacting client orders
- Description of how conflicts of interest are managed (e.g. how firms ensure the fair treatment of client orders and fair allocation of trades) and monitored
- Description of how the effectiveness of controls is assessed

Purchase of Research:

Disclosure should address the following:

- The firm's policy on using external research, including third party research
- Description of how external research is assessed (reference back to Broker Selection)
- Description of the process whereby research is purchased

Derivatives:

- Where appropriate, managers should disclose how and in what circumstances they use derivatives as a fund management tool
- Managers should describe the different types of derivatives used

Access to and allocation of Initial Public Offerings and Underwriting:

- Manager's policy plus procedures for complying with relevant FSA regulations and the extent to which securing allocations of IPOs and underwriting influences trading patterns.

Custody Services:

- Where the manager has appointed the custodian, an outline of the manager's selection, monitoring and review processes

Placing of Deposits:

- Where the manager is responsible for managing cash, the manager's policy on spreading deposits, in particular as regards placing deposits with associates, its policy on credit ratings and counterparty risk, use of money market funds

Foreign Exchange Transactions:

- Manager's policy in spreading foreign exchange transactions, in particular as regards placing these through associates and its policy on credit ratings and counterparty risk

MiFID - the Manager's execution policy:

- The manager will have an execution policy
- The information disclosed to clients in accordance with Level 1 of the Code should meet the MiFID requirement to supply appropriate information about the manager's execution policy to his clients
- The manager will review his execution policy at least annually

- The manager will review his execution policy whenever a material change occurs to his execution arrangements. A material change is likely to include, for example, the introduction of a regulated market which takes the liquidity in a particular instrument. It is unlikely to include the removal of a single counterparty from the list of approved execution venues
- The manager will correct any deficiencies in his execution arrangements revealed by the various checks and processes set out in Level 1 of this Code

APPENDIX 2**LEVEL TWO DISCLOSURE****Reporting Period to which Disclosure relates:*****Percentage of portfolio at period end not covered by the Code***

e.g. direct property, private equity, or commodities.

Fund Management fees and any other income derived by the manager and associates

In the case of pooled funds with multiple fee scales, the fee scale borne by the particular client.

Custody costs borne directly by the fund, and to whom paid, if known by the manager***Comparative Disclosure of trading volumes, commissions generated and how they have been spent***

- Analysis of trading for the reporting period by top 10 counterparties and of total trading
- Analysis of commissions generated at various commission rates
- Analysis of how commissions generated have been spent i.e. how much on execution and how much on research services, and what has been retained by the executing broker and what has been paid to third parties
- Total commissions generated by the fund
- Firm-wide comparison of the fund's trading, commissions generation and how they have been spent, and of average commission rate paid

Guidance for Completion of the Disclosure Table is set out in Appendix 4 on Page 14***Underwriting/sub-underwriting commissions received******Stocklending*** (if the manager undertakes stocklending on behalf of the client)

Income to the fund and fees paid

Taxation

- VAT
- Stamp duty paid on purchases
- Any other transaction taxes or levies

Other de minimis costs, e.g. PTM levy on transaction contract notes need not be disclosed.

IMA COMPARATIVE DISCLOSURE TABLE

How commissions paid have been generated and how they have been used

Report for: **Client A**

Asset type:

Analysis of Trading in period

Counterparty	Total (£)	Of which:		
		% Net	% with Commission	
			At Full Service Rate	At Other Rates
1				
2				
9				
10				
Other				
ALL				
	(a)	(b)	(c)	(d)



Firm-Wide Comparators				
All (Equity/Bond/Other) Trading	100%	%	%	%
Client A Trades	100%	%	%	%
Average Firm-Wide Commission Rate (bp)				
Client A Average Commission Rate (bp)				

Sources of Commissions Paid (£)

Uses of Commissions Paid (£)

At Full Service Rate (£)	At Other Rates (£)	Total Paid Out (£)	Of which:			
			For Execution (£)		Other ¹ (£)	
			Retained by Executing Broker	Paid to Third Parties	Retained by Executing Broker	Paid to Third Parties
(e)	(f)	(g)	(h)	(i)	(j)	(k)



%	%	100%	%	%	%	%
%	%	100%	%	%	%	%
		XXbp				
		XXbp				

¹ Other is research.

APPENDIX 4

GUIDANCE FOR COMPLETION OF COMPARATIVE DISCLOSURE TABLE

The Level Two comparative disclosure table is intended to provide information to an asset manager's client on the following:

- An analysis of the trading on his portfolio by counterparty and by type of trade. Some managers may wish to break down the column "At Other Rates" further in order to disclose their use of various trading systems e.g. DMA, crossing networks, programme trading
- An analysis of the sources, and amount in £s, of commission generated by those trades by counterparty, and the total generated by counterparty
- An analysis of the uses which those commissions, in £s, have been put to with respect to purchasing execution and other services, both those commissions retained by the executing broker and those paid to third parties
- A comparison of the above with the asset manager's **total** pattern of trading in the specific asset class for **all** clients, and a comparison of the client's average commission rate with the firm

Pooled Funds - For pooled funds, separate disclosure should be made at the fund level and not the client level.

Asset Class - As a minimum, managers should complete the table for equities and for bonds. Managers may, however, wish to break asset classes down further depending on client requirements. Bond trading volumes should be disclosed in order to inform the client of trading pattern by counterparty.

Derivatives - Managers who use derivatives should treat these as a separate asset class where inclusion would distort disclosure of other numbers. The consideration paid should be disclosed, not the economic exposure.

Currencies - Currency trades should be treated as a separate asset class with reference as to which asset class they relate. Where currencies are managed as an asset class in their own right, volumes should be disclosed in order to inform the client of trading patterns by counterparty.

Commission Recapture - Where the manager arranges and operates the commission recapture programme and agrees the level of rebate, the commissions disclosed in the table should be net of any rebates to the client. For those programmes organised by the client, but where the manager nominates trades in accordance with client instructions, the manager may wish to disclose the value of participating trades and commissions by counterparty, and if known the sharing of commissions between broker, agent and client. If the manager is aware of the programme but not the relevant trades, he may wish to provide a footnote to that effect. The manager should note where he has received specific instructions from a client regarding the use of a specific execution venue or broker.

Table Definitions

- **Counterparty:** Trading venue, which may be a broker, a crossing network, an alternative trading platform, or other venues

- **Trading Volume for period:**
 - Col. (a) – Total (£):**
 - purchases plus sales plus IPOs plus secondaries to include programme trades, derivative trades (futures, options etc. by consideration paid, not economic exposure) and to include investment/disinvestment of cash flows. In-specie transfers excluded but to be identified by value as a footnote
 - internal crosses to be identified separately if in the top 10, or put in “Others”

 - Col. (b) - % Traded Net:**
 - trades done with no commission paid, including IPOs, secondaries, internal crosses, other securities and instruments which are traded net, and business transacted on a principal basis, as a percentage of total transactions by value

 - Cols. (c), (d) - % With Commission:**
 - transactions subject to commissions
 - Col. (c) – At Full Service Rate:**
 - transactions which bear commission at the standard rate negotiated ex-ante with the counterparty on a firm wide basis, as a percentage of total transactions by value
 - Col. (d) –At Other Rates:**
 - transactions which bear commission at all other rates, such as direct market access, agency programme trades, alternative trading platforms, execution only, algorithmic trading etc. , as a percentage of total transactions by value

- **Sources of Commissions Paid during Period (£):**
 - Col. (e) – At Full Service Rate:**
 - commissions paid on trades in Col (c)
 - Col (f) – At Other Rates:**
 - commissions paid on trades in Col (d)
 - Col (g) - Total:**
 - total of Cols. (e) and (f)

- **Uses of Commissions Paid during Period (£):**
 - Col (h) – For Execution – Retained by Executing Broker:**
 - the amount of commission retained by the executing broker which is for execution, in £s
 - Col (i) – For Execution – Paid to Third Parties:**
 - the amount which is used to pay for services from third parties to support execution, in £s

 - Col (j) – Other – Retained by Executing Broker:**

- the amount which is used to pay for non-execution related services from the executing broker as agreed ex-post (with reference to the ex-ante split), in £s

Col (k) – Other – Paid to Third Parties:

- the amount which is used to pay for third party research, in £s

These amounts, the sum of columns (h) to (k), must sum to the total commission that has been paid in column (g). “Other” refers to non-execution related services, i.e. research. The total amount paid in respect of other services is essentially determined as the excess over that required for execution i.e. the residual.

- **Firm Wide Comparators:**

All Trading by Asset Class:

- to include all trades in the discrete asset class for **all** clients (including those not subject to the disclosure regime), as a percentage, for each column

Client A Trades:

- as above by client, as a percentage, for each column i.e.”ALL” line above in percentages

Average Firm-wide Commission Rate (bp):

- the firm’s average commission rate in that asset class

Client A Average Commission Rate (bp):

- specific client’s average commission rate in that asset class

APPENDIX 5

GLOSSARY

Algorithmic Trading – the use of a broker’s proprietary tools to allow a manager to run trading strategies for his orders (such as matching VWAP or a percentage of volume) without additional execution services from the broker such as sales trading overlay or capital commitment.

Best Execution – under MiFID, investment firms are required to take all reasonable steps to obtain, when executing orders, the best possible result for their clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. The obligation requires firms to obtain on a consistent basis the best possible result but not on an order-by-order basis.

Bid/ask Spread – the difference between the market price quotations, for buying and for selling particular securities.

Commission Recapture – the process whereby a client directs a manager to place trades for his account through a specific broker, in exchange for which the client will receive a rebate of a portion of the total commission in addition to execution services. This arrangement can be managed by a third party, such as an investment consultant, or managed by the client’s fund manager.

Commission Sharing Arrangement (CSA) – an arrangement with an executing broker whereby all or part of the non-execution part of the commission is paid away to a third party for either other execution services or for research services on the instruction of the investment manager. This may be to another broker for his research services, to a third party research provider or to a third party execution service provider.

Counterparty – a trading venue which may be a broker, a crossing network, an alternative trading platform, direct market access or other venues.

Crossing Network – an electronic execution venue for fund managers that enables them to match buying and selling orders in securities directly with other fund managers. Commissions are typically lower while market impact and bid/ask spreads are removed altogether. Liquidity is often a constraint to order completion.

Direct Market Access (DMA) – direct access to the market floor by managers who wish to deal anonymously in the market, without the use of execution services provided by a broker.

Directed Commissions – the process whereby a client directs a manager to place trades for their account through a specific broker, in exchange for which the client may receive benefits from the broker.

Execution Venue – under MiFID “execution venue” means a regulated market, an MTF, a systematic internaliser, or a market maker or other liquidity provider. “Regulated market” means a multilateral system operated and/or managed by a market operator which brings

together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly. “Multilateral trading facility” (MTF) means a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments in a way that results in a contract.

Execution Services – those services related to trade execution that meet the criteria laid down by the FSA for payment out of commission.

Internal Crossing – a manager’s decision to match a selling order of one client with a buying order of another client, or vice versa, without placing the orders through the market, thereby saving both clients the cost of the bid/ask spread and broker commissions.

Market Impact - the difference between the actual execution price for a transaction and the market price that would have prevailed had the manager not sought to trade the security in question.

Net Transactions – trades placed directly with brokers and where no broker commission is paid. The broker is remunerated by making a turn on the bid/ask spread.

Opportunity Cost - the loss (or gain) incurred as a result of delay in completion of, or an inability to complete in full, a transaction following a portfolio manager's initial decision to trade.

Programme Trades – bulk trades for multiple securities placed through a single broker at a significantly reduced commission rate.

Research Services – those services that meet the criteria laid down by the FSA for payment out of commission, irrespective of whether the actual costs are met that way.

Stocklending – the process by which securities are transferred to a counterparty, subject to an obligation for return of the equivalent securities at a future date. The lender is remunerated by way of a fee.