# 2 Broader Trends

## Key Findings

### *Growth and internationalisation*

- The UK industry has become much more international over the past two decades. One long-term proxy for the increasingly international nature of asset management is its contribution to net export earnings, which have grown from under £300 million per year in the early 1990s to £5.3 billion in 2012.

- There is a growing proportion of overseas-headquartered firms and parent groups; overseas firms grew from 43% in 2003 to 55% by 2013, with the biggest change seen in North American firms (from 23% to 43% in the same period).

- At the same time, investment on behalf of clients has become far more international, with the erosion of home bias continuing both in the equity and fixed income markets.

### *Client and product evolution*

- The UK industry has moved through a phase of intense specialisation (mid-1990s to mid-2000s) towards a greater focus on meeting specific client outcomes and/or solutions. This has been seen across UK markets: DB, DC and retail.

- Within the retail market, the RDR has been a key recent regulatory change. It has significant consequences across the value chain in areas such as cost, access to advice, the role of advisers in facilitating product selection and the position of platforms.

- Intermediation patterns have also been evolving in the institutional market, where investment consultants are a critical component in occupational pension scheme delivery and the divisions between the roles of manager and consultant are becoming increasingly blurred.

- Although scrutiny of the active manager's performance is not new, we are seeing intensifying pressure on more conventional active management as a result of a number of factors. Some factors relate to markets and patterns of competition whereas others arise from the political environment in the UK and Europe.

### *Regulatory and political scrutiny*

- There are significant opportunities for the asset management industry internationally as a result of broader demographic and welfare trends and more recent constraints on government and bank financing.

- However, the political and regulatory environment has become steadily more challenging for asset managers, at national, EU and international level. Pressure is building in a number of areas, from transparency through to potential systemic significance.

- Regulation is likely to remain more intrusive and costs of compliance elevated, while the industry itself is also taking initiatives to improve operating practices and disclosure.

# 2 Broader Trends

This chapter brings together a number of data points from within this report, as well as insights from previous Surveys and external sources. It shows the extent to which the asset management industry has changed over the past two decades and outlines a range of current and future opportunities and challenges. We focus on five key industry themes in particular:

- Strong growth and increased internationalisation
- Recent moves away from specialisation towards outcome-focused strategies
- Changing patterns of intermediation
- Increasing commercial and wider pressure on active managers
- Sustained regulatory and political scrutiny in the post-2008 environment

The institutional chapter, which follows, picks up a sixth theme: the implications of the shift towards DC pensions and reform of the UK retirement income market.

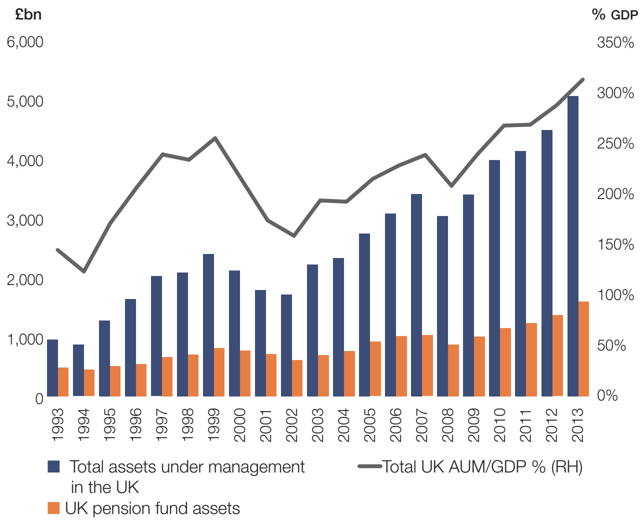
Putting all this together reinforces the messages of our last Survey relating to the future of the industry. In many respects, the actual – and anticipated – growth of the industry does suggest that we are entering an 'age of asset management'. A number of changes to the way in which firms serve clients are likely, not least to ensure that the industry operates with the full trust of clients, politicians and regulators.

## Rapid Growth and Internationalisation

Chart 15 illustrates the evolution of total assets under management since 1993. This is the first time the IMA has published this data, based on asset management surveys from the former Fund Managers Association (FMA). Beside the significant growth of the industry over the last two decades (10% annual equivalent rate of growth), one particularly striking feature of Chart 15 is the changing relationship between the UK client base and the overall size of the industry. While domestic institutional clients (pension funds and insurers in particular) formed the core client group in the mid-1990s, the industry has broadened considerably in the past decade, including a significant level of activity on behalf of overseas as well as UK clients.

Measuring assets under management relative to domestic GDP also provides a useful metric of the scale of the industry. As Chart 15 shows, assets under management in the UK have increased from 144% of total GDP in 1993 to 313% of GDP in 2013.

**Chart 15:** Total assets under management in the UK and UK pension fund assets (1993–2013)

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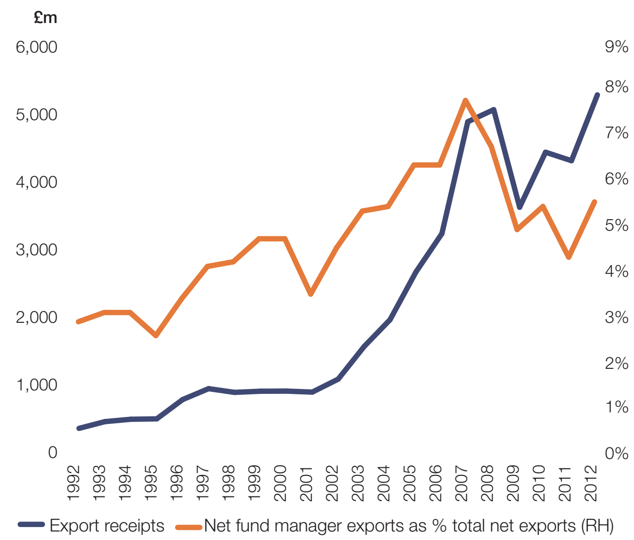
## Contribution to export earnings

The overseas client base accounted for 40% of total assets managed in the UK in 2013. External data suggests this has increased from around one quarter ten years ago. One long-term proxy for the increasingly international nature of asset management is its contribution to net export earnings, which had grown from under £300 million per year in the early 1990s to £5.3 billion in 2012 (equivalent to 5.5% of total net exports). Fund managers have accounted on average for 6% of annual services exports over the past decade. This is shown in more detail in Chart 16.

**Chart 16:** Export earnings of fund managers and contribution to services exports (1992–2012)



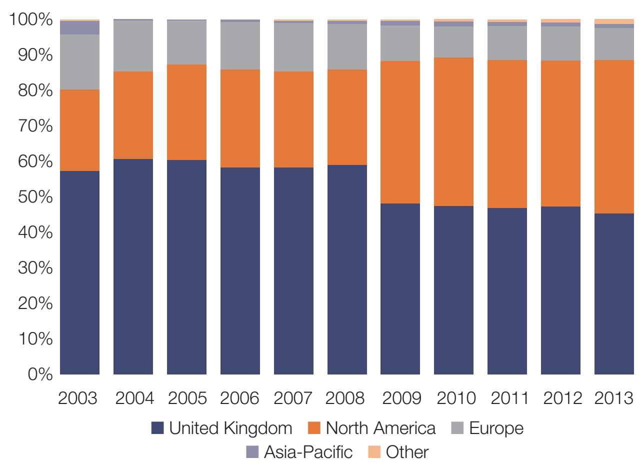

Source: ONS

## Internationalisation of corporate structure

One other aspect of this internationalisation is the growing proportion of overseas-headquartered firms and parent groups (see Chart 17):

- Measured as a proportion of total assets managed in the UK, overseas firms grew from 43% in 2003 to 55% by 2013. In other words, UK-owned asset management firms now account for less than half of total assets managed from the UK.
- The biggest change is seen in North American firms (from 23% to 43% over the last 10 years). The amplitude largely reflects the merger between BlackRock and Barclays Global Investors (BGI) in 2009.
- European firms, on the other hand, have recorded a fall in market share since 2003. This relative decline was accentuated by the impact of the 2008 crisis on the European banking industry.
- Firms from Asia-Pacific and other regions have been growing in recent years, but given their relatively small size (1.1% and 1.3% of total UK assets under management respectively), they are increasing from a very low asset base.

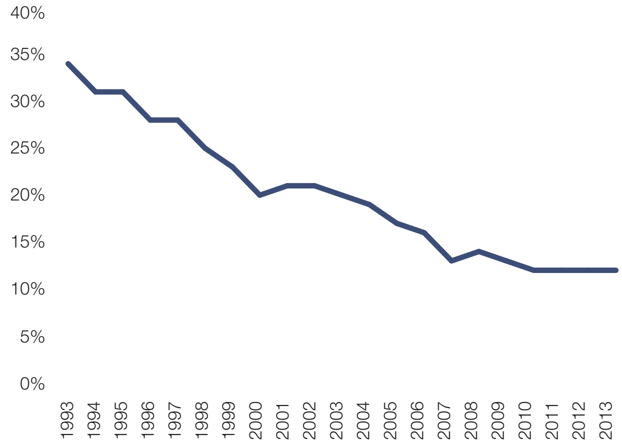
**Chart 17:** UK assets under management by region of parent group headquarters (2003–2013)



## Investment in overseas markets

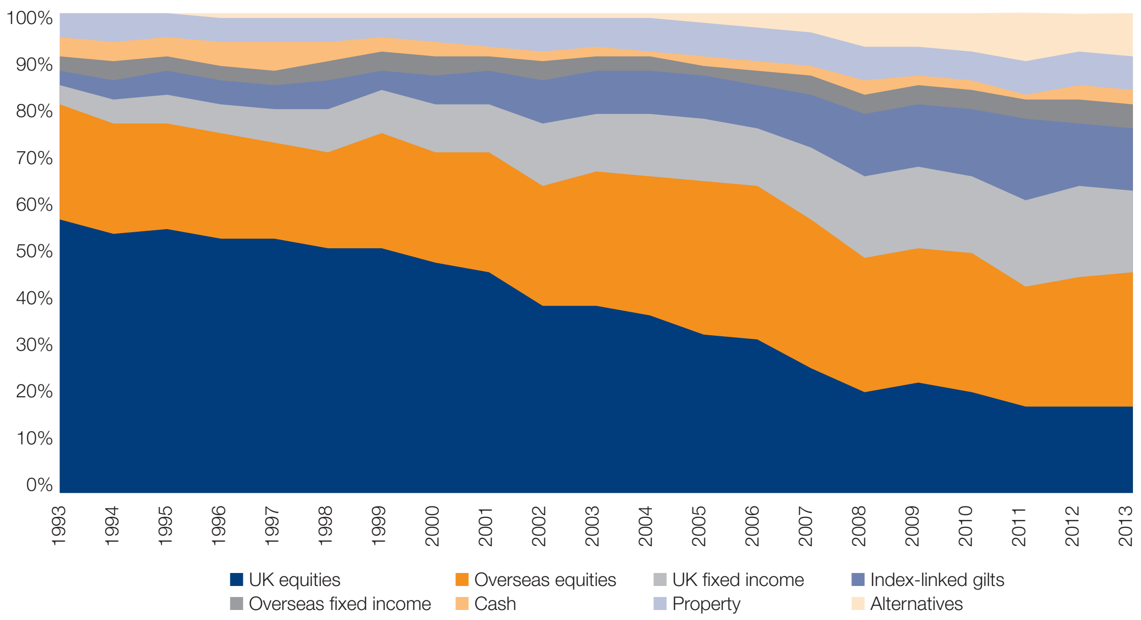
A further aspect of this internationalisation can be seen in the role of UK asset managers as investors in overseas markets. In Chapter One, we showed how both overseas equity and fixed income holdings have increased in recent years. External historical data show how significant this erosion of domestic bias has been, both for the overall UK equity market (see Chart 18), and for the asset allocation of large investor groups, notably pension funds and insurance companies (see Chart 19).[21]

**Chart 18:** Pension fund ownership of UK equities, measured as proportion of total domestic market capitalisation (1993–2013)




Source: IMA Calculations, based on data from London Stock Exchange and UBS Pension Fund Indicators 2014

**Chart 19:** Overall UK pension fund asset allocation (1993–2013)




Source: UBS Pension Fund Indicators

[21] The ONS (Office of National Statistics) data show that UK pension and insurance ownership has further declined to 4.7% and 6.2% of domestic market capitalisation respectively. However, the difficulties encountered in seeing through pooled nominee accounts may cause an under-estimate. Data from the PPF (Pension Protection Fund) suggests that UK corporate DB pension schemes may account for a larger proportion of domestic market capitalisation.

Measured as a proportion of domestic market capitalisation, UK equities managed by IMA members in the UK account for just 30% of the total. While longer term data is unavailable, this is consistent with the sharp falls in the holdings of UK institutions. However, within the investment funds industry specifically, industry growth has seen holdings of UK equities increase strongly in absolute terms, whilst declining as a proportion of total funds under management as the industry diversifies. UK funds owned about 6% of the UK market in 1993. We estimate that this has now reached 10% (see p.62).

There is also significant overseas portfolio management activity by UK asset management firms. While some firms centralise their asset management, many have the reverse philosophy and prefer portfolio management and trading to be located in the region of the asset or the client. The latter will either delegate formally or manage the assets directly in overseas offices in the relevant region. Hence, many firms manage assets outside the UK on behalf of both UK and international clients. We estimate that UK-headquartered asset management firms managed £2.1 trillion in the UK, but a further £2.1 trillion worldwide.

# Client and Product Evolution

Through the 1990s and into the 2000s, a number of significant changes have taken place in the way the industry serves its clients.

## Specialisation and its limits

By the late 1990s a significant move towards specialisation (defined as a focus on investment component products such as global equity funds, rather than asset allocation or outcomes) was taking place within the asset management industry and continued into the 2000s. This was seen particularly through the transition away from the balanced mandate environment that had been a central feature of services provided to UK DB pension schemes.

Over the last five years, we have observed increasing signs of recognition by asset managers that the trend toward specialisation could be reversing in favour of solutions that are more tailored to specific client outcomes. This can be seen in a number of areas of the market, both institutional and retail:

- In the institutional market, there has been a strong take-up of LDI products by DB pension schemes. KPMG[22] estimates that the notional value of liabilities hedged rose by 17% to reach £517 billion at end December 2013 (£443 billion in 2012). On the DC side, the UK is also seeing a slow but accelerating emergence of outcome-focused asset management products, such as target date funds (TDFs).

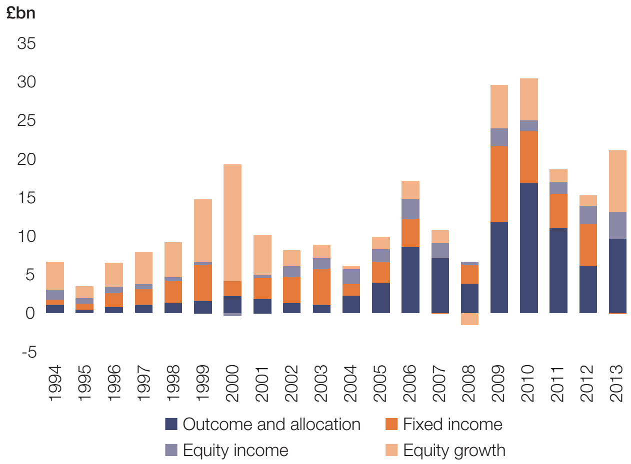
- In the retail market, the most obvious shift in this context has been towards targeted absolute return and, most recently, risk-targeted fund strategies. However, strong sales of asset allocation funds are seen in the retail market too (see Chart 20).

[22] Source: KPMG. *Navigating the UK LDI Market. 2014*

At the same time, both specialist and more tailored product sets are becoming more diversified. There has been increasing use of 'alternatives' and the definition of 'alternatives' has been broadened towards sources of return that can provide the kind of yield and inflation-hedging that many institutional investors are looking to access (see also p.46).

We discuss these issues in detail in Chapters Three and Four.

**Chart 20:** Retail investor preferences by fund type (1994–2013)




Source: IMA

## Intermediation patterns

Over the past decade, distribution platforms have emerged as an important new form of intermediary, used by both advisers and direct investors to access a variety of products, including funds and wrappers such as ISAs and SIPPs. Funds may be available under a broad open architecture offering or, increasingly, a 'guided architecture' environment with a smaller range of funds.

At the same time, the way in which advisers build portfolios has evolved away from more traditional fund selection towards greater use of model portfolios which effectively outsource significant aspects of product design and manager selection.

The RDR is, of course, the key current driver of change in the distribution environment. The RDR has come into force in two stages, with adviser charging rules being effective from 31 December 2012 and platform payments rules from 6 April 2014. While the new regime is making the total cost of investment, measured by fund charges, much clearer, it has also created a more complicated environment for investors due to the greater range of share classes and the different charging structures of advisers and platforms. The process of migrating existing clients from pre-RDR to post-RDR share classes has added to this complexity.

UK fund managers identify a number of possible consequences of RDR:

- Greater transparency of cost within individual elements of the value chain is expected to result in increased adviser and client scrutiny of both fund management performance and charges. The combination of RDR, changes in adviser approaches to fund selection and greater availability of passive funds is widely expected to result in greater selection of the latter, with increased margin pressure on active managers. Despite pricing pressure on fund managers, there is limited evidence as yet of a reduction in the average total cost of ownership when all components (investment, distribution and advice) are included.

- While the quality of advice may be improving, access to it is considered to have become more difficult, particularly at the less affluent end of the market. Partly as a consequence of increasing visible costs of advice, RDR is expected to drive upwards non-advised sales, with investors using a variety of access points. Execution-only platforms are now a well-established feature of the retail landscape, but there are also signs of non-advised online distribution processes that offer a form of discretionary service in helping clients build portfolios. A broader regulatory issue that emerges here has been the blurred boundary between guidance and regulated advice, which has implications for both fund managers and distribution intermediaries.

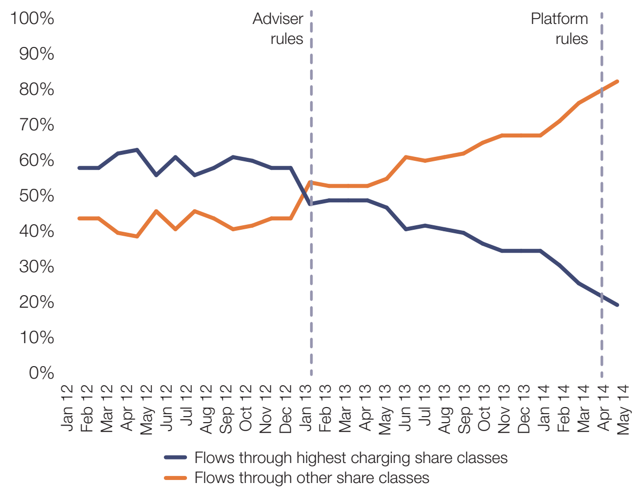
- Consolidation across the distribution chain is also expected, particularly in the range of platforms. If the trend of fund managers buying parts of the distribution network continues, there may also be a reduction in fund choice as non-integrated firms find it harder to get market access.

With respect to the evolution of the funds market in the face of these changes in the distribution market, one critical research finding to date is that concentration of flows is not happening in the way that all of these developments might lead us to expect (see more detailed discussion on p.76). On the contrary, at the gross retail sales level, there are signs of decreasing concentration (see Chart 21), indicating a highly competitive industry.

However, entirely as expected, there has been a noticeable change regarding into which share classes flows are being directed. The IMA collects data at the share class level and is able to quantify the proportion of flows going into particular share classes. Analysis has been performed over the period January 2012 to May 2014, and the results are presented in Chart 22.

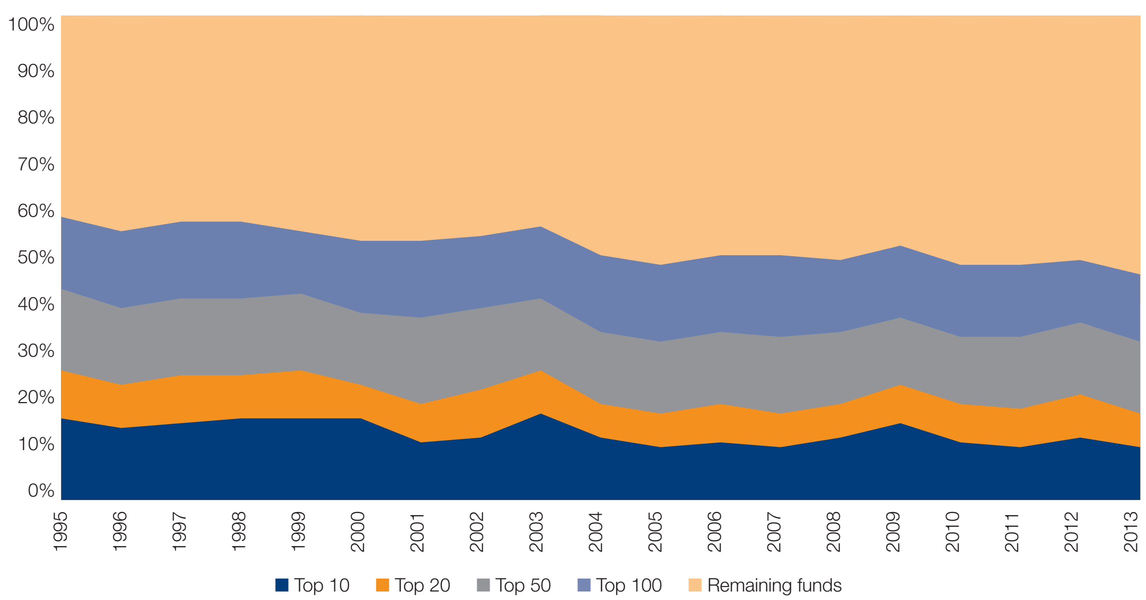
The data indicates that around 60% of all gross retail flows immediately prior to the introduction of RDR were directed into the share class with the highest annual management charge, for each of the funds in the IMA sectors. Though not always the case, the highest charging share class of a particular fund will often be the primary retail share class, where the majority of retail business was historically invested.

**Chart 22:** Gross retail sales at share class level (Jan 2012 to May 2014)




The introduction of the first stage of the RDR at the end of December 2012 saw a move towards the use of share classes that were not the highest charging. The adoption of lower charging share classes has gathered pace ever since. By the end of May 2014, which is our latest data at the time of writing, over 80% of flows were being directed into lower charging share classes as opposed to the highest.

**Chart 21:** Concentration of UK funds industry (gross retail flows into all funds, 1995–2013)



Intermediation patterns have also been evolving in the institutional market, where investment consultants are a critical component in occupational pension scheme delivery. Here, there has been an increasing blurring between the traditional roles of asset manager and consultant as a result of activity in the implemented consulting and fiduciary management marketplace. In terms of market sizing in this area, IMA Survey results have shown very low penetration of fiduciary management as measured in asset terms. A report by KPMG last year confirmed this, pointing to a market size of around £58 billion, albeit growing very quickly from a low base.[23]

## Greater use of passive management

Ten years ago Huw Van Steenis published the well-known 'barbell' analysis which predicted a polarisation in the market between commoditised beta and high alpha products, with intensifying pressure on the middle ground of more conventional active management. Whilst the IMA data points to some stabilisation in the shift towards passive (see p.23), limitations of coverage suggest caution as to the implications of this data. A number of factors continue to increase the pressure on active managers:

- Conditions in equity markets have inclined some investors, particularly in the retail space, to wariness regarding risk and to greater focus on product cost.
- Retail distribution reforms and the changing structure of the advice market are also contributing to a greater focus onto costs, with implications for active managers (see p.29).
- The availability of indexing products has increased significantly, both in terms of the diversity of markets accessible and the techniques available (eg. 'smart' beta).
- Recent political interventions, notably a consultation regarding the future of Local Government Pension Scheme (LGPS) investment processes (see p.33).

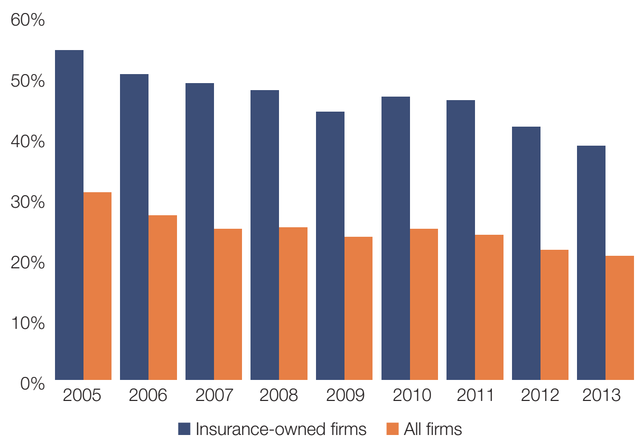
## Evolution of insurance industry

Over the past two decades, there has been a structural shift in the insurance industry away from the traditional with-profits business towards investment-linked products, particularly for the pensions market. This has translated into little growth in the asset base underpinning life and other non-pensions business. Measured in nominal terms, ABI data shows this increasing from £260 billion in 1992 to just £330 billion twenty years later.

The IMA has tracked the shifts in insurance business since the inception of its Survey in 2002, when insurance (in-house and third party) accounted for almost a third of total assets under management in the UK. Over the intervening decade, this has fallen to some 20% with much faster growth in other client segments, notably pension schemes, changing the relative position of the major institutional client groups.

The decrease is also reflected across the sample of insurance-owned firms, which saw insurance client assets fall from 54% in 2005 to 39% at the end of 2013 (see Chart 23). The change here reflects an evolution in the business development of in-house insurance asset managers, where a number of firms have been relying less on in-house flows for growth strategies, looking instead to external clients (including other insurers). This is part of a wider pattern within financial services which has resulted in a move away from the vertically-integrated business models that have been the norm in the past.

**Chart 23:** Insurance assets as proportion of total assets under management by firm type (2005–2013)




[23] *2013 KPMG UK Fiduciary Management Market Survey*, November 2013.

# Two decades of industry evolution

## 1993

Total UK assets under management = **£955 billion**

Authorised funds industry (unit trusts) = **£95 billion**

UK occupational pension scheme assets = **£480 billion** (80% equities)

Active private sector DB scheme members = **c5 million**

- DB provision mainstay of workplace pension system and largest client group of asset management industry.
- UK pension schemes and insurers heavily invested in equities, especially UK stocks.
- Balanced mandates a key feature of third party institutional asset management.
- Insurance industry vertically integrated; emphasis on with-profits business.
- Retail funds industry direct and IFA intermediated.

## 2003

Total UK assets under management = **£2.2 trillion**

Authorised funds industry (unit trusts and OEICs) = **£242 billion**

UK occupational pension scheme assets = **£693 billion** (67% equities)

Active private sector DB scheme members = **c3.6 million**

- UK corporate DB schemes closing to new members, and starting to de-risk.
- Third party institutional asset management predominantly specialist and consultant intermediated.
- Market for passive investing growing.
- Insurance industry moving toward open architecture; unit-linked business rising.
- Retail fund platforms starting to emerge.
- Workplace DC in infancy.

## 2013

Total UK assets under management = **£5.0 trillion**

Authorised funds industry (unit trusts and OEICs) = **£770 billion**

UK occupational pension scheme assets = **£1.6 trillion** (46% equities)

Active private sector DB scheme members **<1.5 million**

Active DC scheme members **>4 million**

- UK corporate DB schemes mainly closed to new members and increasingly to future accrual. Still largest client group in asset terms.
- DB de-risking seen in asset allocation, extensive use of LDI strategies and buyout.
- Third party institutional asset management moving towards solutions and wider asset classes.
- Passive investing characterised by significantly increased reach and innovation.
- Insurance provision increasingly differentiated between investment and protection.
- Fund platforms at heart of retail distribution process.
- Automatic enrolment accelerating shift to DC.
- Combined effect of platforms and DC shift eroding institutional vs. retail distinction.

## Political and Regulatory Environment

We have emphasised in our past two Surveys that the broader policy environment is one of potential opportunity for the industry. In particular, demographic shifts and the associated move towards greater responsibility for pension saving clearly create a different role for asset managers.

Policy attention is also shifting towards a different role in capital intermediation that the industry could play in the context of more capital-constrained banks and national governments. This is reflected in initiatives such as the European Long-Term Investment Funds (ELTIFs) regime. At the same time, there is an increasing focus on the question of 'long-termism' in terms of stewardship and engagement, with the Investor Forum established in the UK in the summer of 2014 to provide a new mechanism for institutional investors to engage collectively.[24]

However, while more active engagement in the routing of capital flows and the governance of the sources of return is an increasingly important public policy objective, there are countervailing political pressures on the industry:

- Post-2008, the political climate around financial services has focused increasingly on charges and remuneration. Attention was initially concentrated on the banking industry internationally, but asset managers are now also under the spotlight. One example of this was a proposal in 2013 from within the European Parliament to introduce bonus caps for UCITS managers as part of the UCITS V package. A more recent example is the UK Government's announcement that it is to introduce a charge cap of 0.75% for default strategies in pension schemes used for automatic enrolment. While pension delivery involves more than just investment management, the public debate about the charge cap has often involved discussion about whether active investment management has a place. This debate is linked in turn to the issue of transparency (see p.34).
- The UK Government has turned the spotlight onto the role of active managers in other ways, too. In Spring 2014, the Department for Communities and Local Government (DCLG) launched a consultation on the future of the LGPS investment processes which could see the reallocation of actively managed equity and fixed income mandates towards collective investment vehicles run on a passive basis.

### Regulatory landscape

Regulators in the UK, EU and internationally are also scrutinising the role and operations of asset management firms more closely than ever. In this section we explore three themes that are particularly prominent at the current time:

- Market transparency (including market structure)
- Client-facing transparency
- Potential systemic significance – and the resolution and/or recovery – of non-bank, non-insurance entities, including collective funds but also central counterparties

The political dimension here is particularly significant. It has led not only to a number of prescriptive pieces of legislation but also to a much more sceptical attitude towards financial services as a whole. Regulation is likely to remain more intrusive and costs of compliance elevated, prompted by a desire to prevent a recurrence of the paralysis within the financial system six years ago. This has added to the complexity of transatlantic relations and, within the EU, has reduced the regulatory and supervisory room for manoeuvre of individual member states.

Appendix 3 outlines the full range of regulatory initiatives affecting the industry.

#### Market Transparency

The question of transparency covers a wide range of areas, from the functioning of markets through to client disclosure. One of the central objectives of MiFID I, which came into effect seven years ago, was to secure greater market transparency, while simultaneously seeking to create effective competition between trading venues and indeed types of venue.

[24] www.investorforum.org.uk

**Why is market transparency such a critical issue for asset managers?**

*It is generally accepted that transparency has a cost to it. If market participants telegraph trading intentions to other market participants – eg. in relation to a large sell order – then those other participants will naturally tend to mark down the price at which they are willing to buy. As compared with a more discreet approach, that may ultimately cost the end-investor money. The larger the holding that needs to be sold, the bigger the impact is likely to be. Given that investment managers operate on a scale designed to reduce other costs (including the bid-offer spread), they will very often be transacting in a size which makes 'market-price impact' difficult or impossible to avoid.*

*Even 'post-trade' transparency (if that means reporting the transaction as soon as it is done) can have the same effect, because one typically relies on a market-maker to take on the price risk (reducing the search costs associated with finding a willing counterparty). Market-makers bridge a temporary gap between buyer and seller and consequently can only quote a price that is as good as their anticipated ability to find someone willing to take the other side to a transaction. But as soon as the initial transaction with the market maker is completed and signalled to other participants, that market maker is in exactly the same situation as an investor who had been obliged to telegraph their intentions.*

The new MiFIR, in replacing MiFID I on matters of market structure, raises this issue at a time when market-maker inventories are generally dropping (because of pressures on them on the capital-adequacy front). The new legislation will require post-transaction price transparency to the rest of the market and restrict the use of the 'dark' liquidity pools that help end-users limit market impact. The crucial question will be how tightly these constraints operate. The new ceilings will clearly limit 'dark' trading, but could also create operational challenges. For post-trade transparency, even with exemptions for transactions that are 'large-in-scale', the industry is concerned that there will still most likely be a reduction in capacity, which is unlikely to be offset by a narrower bid-offer spread for transactions in smaller size.

As this Survey goes to press, the exact details of the regime remain in the balance. But, with the G20 countries committed to transparency, the concern of the asset management industry is that this transparency may come at a high cost to end customers.

One possible conclusion is that the new European legislation still offers increasingly commercialised exchanges a relatively privileged position. So, while restrictions on low latency forms of high-frequency trading are welcome to the industry, there are concerns that exchanges may exploit their central role by selling data, not least to high-frequency trading firms.

Meanwhile, the new MiFID package has delayed the creation of a meaningful and affordable 'consolidated tape' of European equity price information. Based on the last disseminated price for the shares in question, such a record is helpful to the nurturing of a Europe-wide equities market. It is true that the 'tape' could still work by taking data from only the biggest trading venues (leaving out information from venues with a minimal fraction of the European trading in a given share). But even that is generally regarded as a tall order logistically and financially. At least on the IT side there is now a way to provide the granularity that users need as to the type of transaction being reported, in the form of the 'MMT' (Market Model Typology) standard for labelling transactions according to their nature.

Otherwise, the impact of the updated regime for trading 'venues' is uncertain. But there is an increased focus on any form of 'match-making' function. Thus, 'internalised' crossing of buy and sell orders within a firm or group, without exposing those orders to the rest of the market, is likely to attract the same requirements and obligations as a more formalised venue, whether exchange, Multilateral Trading Facility or (in the derivatives world) 'organised trading facility' (OTF).

### Client-facing transparency

From an industry client disclosure perspective, one of the core issues over the past twelve months has been the question of charge transparency and widespread accusations about 'hidden' charges and costs. The drivers of this are partly the same as those driving the focus on active managers, notably returns in many equity markets since the end of the dot.com crisis and the on-going fallout from the global financial crisis that began in 2007/08.

A key additional factor in the UK has been the beginning of the process of automatic enrolment into workplace pension schemes in 2012, which has seen over four million new pension savers. The combination of the shift of risk that DC entails (see discussion in Chapter 3) and the fact that many of the new scheme members have little previous direct exposure to investment have drawn the attention of policymakers and regulators to industry disclosure.

As we reported in the last Survey, asset managers clearly recognise the need for improved communication with clients and the industry is taking steps to work for significant change. One particular initiative taken by the IMA has been to seek better disclosure of charges and transactions for investment funds, with the development of a pounds and pence table showing charges and costs in the context of typical unit performance.

More activity will follow through 2014 and 2015 as government, regulators and industry move to a different reporting framework. The direction of travel here is also influenced by EU legislation, notably MiFID II and PRIPs. The combination of UK domestic drivers and European regulation is expected to result in far greater detail being provided on transaction costs incurred in delivering investment returns across the product environment.

### Systemic significance

One of the consequences of the financial crisis has been more reflection by the regulators on the systemic significance within the global financial system.

The most directly relevant element of the focus on systemic significance has been the Financial Stability Board (FSB) and the International Committee of Securities Commissions (IOSCO) January 2014 consultation on a methodology for identifying global systemically important financial institutions (G-SIFIs) that are 'non-bank non-insurer (NBNI)', including collective funds. This consultation also underscores the extent to which global regulatory institutions, rather than national or regional entities, are driving the debate.

The FSB-IOSCO paper assumes that the distress or failure of a collective fund could be transmitted to other financial entities and markets and thereby, poses a threat to global financial stability and the economy more broadly. For the asset management industry, this raises a number of issues, not least that the consequences of a fund being designated systemic are not set out in the paper.

The industry has also felt that because of the fundamental difference in nature between funds and banks, the FSB-IOSCO methodology should only look at combinations of factors, notably leverage and counterparty risk, in determining possible impact on others in the system. It further argues that the highly regulated nature of collective funds ought to be taken into account by supervisors, as should existing reporting requirements and activity-specific market regulation. A likely area for regulatory interest is the way managers may be able to manage mass redemptions, using tools that could in theory slow down any market panic.

The FSB will report on progress to the G20 at its meeting in mid-November in Brisbane and a second round of consultation, following the January 2014 paper, is expected around the end of 2014. A place-holder has been left for future deliberations on segregated mandates, managers and what they refer to as 'families of funds'.

A less prominent but important dimension of the systemic risk debate has been the approach to rescuing clearing houses or central counterparties

(CCPs) if they get into difficulty, however remote that possibility may be in practice. The difficulty arises from the notion that a CCP that has got itself into such a situation could have the credibility to resume business, given the truly systemic importance of its credit-risk-management function. Many participants depend on CCPs, while the latter can realistically only ever be few in number, if not unique within their asset class, making it unlikely that any other entity can step in to replace them.

The asset management industry is concerned, in this context, that most of the burden for rescuing a discredited CCP could fall on institutional investors or funds that make use of central clearing (which they may have no choice but to do, unless they stop making use of derivatives to hedge or for efficient portfolio management purposes). There is an alternative, which is to require the CCP to make adequate plans for winding itself down, possibly supplemented by the CCP putting its own capital at risk, in greater amounts and earlier in the process of absorbing losses.

Finally, the regulators' focus in the area of systemic risk includes repurchase agreements and other collateralised trades. One can expect increasing regulatory scrutiny of and pressure on any form of 'securities-financing trade' and much tighter monitoring and limits on the use (and onward re-use) of collateral.

## Overall Picture

In many respects, the asset management industry has weathered the global financial crisis robustly, and the rising asset base is a reflection of the central importance of the industry both to economic growth and to helping clients achieve their financial objectives. The UK asset management base, almost unparalleled in its breadth and depth, contributed positively to the balance of payments through strong overseas earnings.

The industry is also changing quickly, with the cycle of 'specialisation' that characterised the period between the mid 1990s and mid 2000s evolving towards a greater focus on delivering specific client objectives, whether in the retail, DB or DC markets. As we explore in more detail in the next chapter, the DC market will be in many ways the bellwether of the industry's ability to deliver, with the UK Budget 2014 unexpectedly opening the door to a major shift in the way in which retirement income products are used.

At the same time, a consistent refrain of this report in recent years has been the growing pressure on the industry to change the way in which it operates, communicates and accounts for its products. While the combination of ageing societies and constrained government and bank balance sheets creates an unprecedented opportunity for the industry, there is also growing expectation and impetus for such change. Furthermore, the 'age of asset management' is resulting in more profound questions about the systemic significance of the industry. We expect such themes to remain on the agenda for some time to come.