



BCPP Joint Committee

Date of Meeting: 20th October 2017

Report Title: Feedback on National Working Groups

Report Sponsor: Member of Officer Operation Group – Jo Ray

1.0 Executive Summary:

1.1 Since the last Joint Committee, Officers have attended meetings of the Cross Pool Collaboration Group, the Cross Pool Infrastructure Group, the Cross Pool Responsible Investment (RI) Group and the Cross Pool Tax Group.

2.0 Recommendation:

2.1 The Joint Committee is asked to note this update report.

3.0 Background:

3.1 The summarised highlights from each of the national working groups attended since the last meeting of this Member group are shown below:

3.2 *Cross Pool Collaboration Group (last meeting 6th September) –*

- LGA (Jeff Houston) updated the group on the following:
 - Ministers letter – DCLG generally happy with progress to date, and requiring progress reports in October. They do have concerns with three funds and their progress with pooling, and they will be having conversations with them.
 - Fund and pool reporting – Reporting requirements group being set up with CIPFA, DCLG, LGA, SAB, Treasury and pool representatives. This will look at what Government require in reporting terms and also what should be presented in the annual report and accounts of the Funds.
 - Cost transparency – pools will need to sign up to the new framework, and funds should encourage their current managers to sign up. Institutional Disclosure Working Group (IDRG) is using the current LPGS cost template as a base and looking to roll it out across the industry.

- MIFID II – all information regarding the opt-up process and documentation is available on the SAB website. Longer term initiative is to get further flexibility for Funds investing through pools, e.g. if funds are investing through pools they are considered professional by default. CIPFA's PS Live offering was discussed as a tool for assisting with the opting up process.
 - DWP are very interested in the development of the pools, and how it might be linked to consolidation of pension funds in the private sector.
 - Fund resourcing – a letter had been sent to all S151's by CIPFA, reminding them of their responsibilities and to ensure Pension Funds were adequately resourced. The Pensions Regulator's (tPR) interest in public sector schemes is increasing in this area.
- National Frameworks (Nicola Mark) attended and updated on the following:
 - The framework for Investment Consultancy would be live in October
 - The framework for Transition Management was going out to tender in September.
 - Consideration was being given to frameworks in mortality screening and AVC providers.
 - Legal advice was being taken to see whether the Custody framework could be extended for a further 18 months.
 - An annual meeting would be held in November, and all Funds were invited.
- Updates were provided by each Pool.
 - It was agreed that transition needed to be a standing agenda item going forwards, to share plans and highlight risks.

3.3 *Cross Pool Infrastructure Group (last meeting 28th September)*

- Discussions centred on progress to date and proposed response by each pool to the DCLG Autumn submission. All agreed that their response would be reset and restate the Spring update.
- Due to pressures no pools (other than Northern / LPP through the existing GLIL vehicle) had made any further progress on establishment of the national platform, although several had increased actual allocations or proposed allocations following asset allocation reviews post triennial valuation.
- It was agreed that as pools all progress towards go-live, meeting dates for this group needed to become more regular, so that any national platform agreed can align with pools go live dates and their ability to invest in it.

3.4 *Cross Pool Responsible Investment Group (last meeting 12th September)*

- LAPFF Chairman Cllr Kieran Quinn attended the July meeting and explained how LAPFF works with its fund members and set out how it could work for pools in the future. He welcomed the opportunity provided by the meeting to gather feedback from the committee attendees on suggestions or concerns from the pool perspective and feed these back to the LAPFF executive committee in his report to their next meeting.
- Each pool updated the group on its progress.
- LAPFF Climate Change Framework – the representative from LPP had coordinated feedback on this document from the cross pool members, and this had been incorporated into an updated version going to LAPFF Executive later in September. This will go to a LAPFF Business Meeting for comment, so LAPFF members will get the chance to comment again – all members need to be satisfied with the Framework.
- Discussion was had on the possibility of pools funding cross pool RI research in the future.
- There would be a formal review on the benefits of the cross pool RI group in the Spring, and there was a general feeling that it would be beneficial to continue with this group once pools were all live.

3.5 *Cross Pool Tax Group (last meeting 26th September)*

This was the first meeting of this group, and its role was to look across the various tax areas and the implications and considerations for the pools and funds. The issues discussed are set out below:

- VAT
 - consideration of a single or a group VAT registration.
 - distinction between exempt and taxable supplies - ruling expected in the United Biscuits case in Q4 2017.
 - treatment of pre-trading expenditure.
 - timing of VAT registration - voluntary or mandatory election.
 - pools will be subject to some irrecoverable VAT.
 - investment management and custodian expenses are VAT exempt, depositary and overheads subject to VAT.
 - non-EU VAT is reclaimable, EU VAT is not, VAT on property may be reclaimable.
 - need to establish VAT position for each cost item.

- investment management services provided by the pool to the ACS should be exempt, investment advice provided to the administering authorities are expected to be subject to VAT which should be recoverable by the authorities.
- Corporation Tax
 - can pre-trading expenditure be used for offsetting profit?
 - transfer pricing risk and arms-length pricing - external costs e.g. external manager fees can be passed through but internal costs cannot just be passed through and modest profit margin may need to be applied.
 - need to register for corporation tax within 3 months of commencing a business - defined as employing staff.
- ACS withholding tax
 - Positive impact in France (0% in ACS v. 15% WHT in pension fund) and Sweden (0% v. 5%).
 - Often a poorer outcome in Emerging Markets - ACS may not be the right vehicle.
 - Custodian responsible for securing tax clearances (under direction from client) but can take up to 6 months.
- ACS transfer taxes (e.g. stamp duty)
 - Potential transfer tax liability on transfer into ACS.
 - UK - automatic in-specie exemption but needs to be an application for relief.
 - Other key clearances are Ireland, Switzerland, and Hong Kong.
 - Italy can be problematic.
 - Potential for non-resident capital gains tax - high risk countries are India, Indonesia, Mexico, Thailand, and Argentina
- Property
 - ACS seeding relief - not available for Scottish property.
 - 3 year clawback of relief if monies redeemed from ACS - does not prevent transactions within the ACS.

3.6 *Working Group on Transparent Reporting Post Pooling (last meeting 2nd October)*

This was the first meeting of this group, and its role was to look at how transparent reporting can be achieved post pooling to meet the requirements of various stakeholders. The issues discussed are set out below:

- CIPFA, DCLG, LGA, GAD, Cabinet Office and pools were represented.

- CIPFA explained the current accounting requirements based upon the CIPFA Accounting Code and also the existing guidance around “example accounts” and annual report guidance, which have seen a significant improvement in financial reporting in recent years. The Accounting Code is overseen by a national board and follows IFRS, so is more onerous to achieve change.
- LGA set out the current SAB initiatives from the GAD standardised valuations, KPI reporting and annual report consolidation which have enhanced the current national reporting position, along with the DCLG SF3 form.
- DCLG were looking to minimise the overall workloads/reporting requirements by adapting existing methods.
- The reporting requirements will be dependent on the individual pool models adopted, and their financial reports will be driven by UK accounting and FCA rules.
- In creating Pools, the Funds need to set explicit reporting requirements to ensure the Funds can meet their obligations for accounting, transparency and pooling.
- The Group agreed to reconvene once the specific issues were identified with aim of creating a work plan to address each of these issues. In summary the issues were noted as:
 - What are asset class definitions in the Net Asset Statement?
 - What are the expected Asset Pool reporting requirements?
 - What are the likely reporting outputs for costs and performance for assets within and outside Asset Pools?
 - Can Net Performance be clearly defined?
 - How should transition costs be reported?
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3.7 *MiFIDII LGPS Working Group*

- No further meetings were held of this group. The final regulations published by the FCA in late June included an additional quantitative test to allow for any administering authority of the LGPS to meet the requirements, in addition to having a portfolio of more than £10m.
- A standard letter and template was produced by the SAB, in conjunction with the LGA and the Investment Association, simplifying the opt-up process across all Funds.

- Funds were expected to have submitted opt-up requests to their managers by 30th September, to enable the 3rd January deadline for opting up to professional status to be met.
- A further meeting may be held to discuss issues with Funds accessing certain alternative investments for the first time (e.g. private equity).

4.0 Conclusion:

4.1 Substantive work and engagement with different agencies continues to be progressed on a range of matters to ensure the LGPS can secure best value and exercise its collaborative influence wherever appropriate.

4.2 Dates of the next meetings are as follows:

Cross-pool Collaboration Group – 26th October 2017

Infrastructure sub-group – 30th November 2017

Responsible Investments sub-group – 23rd November 2017

Tax sub-group – mid November 2017

Transparent Reporting Working Group – date to be confirmed

MiFIDII LGPS Working Group – date to be confirmed

5.0 Report Author:

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