

DWP and HM Treasury call for evidence on pension trustee capabilities



What you **need to know**

- Following on from the Chancellor's Mansion House speech, the DWP and HM Treasury have published a number of consultations and calls for evidence as part of the Government's stated agenda to improve opportunity for investment in alternative assets including high growth businesses.
- One of the calls for evidence focuses on whether trustees have the right skills and capabilities to make investment decisions that fit with the Government's agenda and what barriers there might be to achieving the economic aims.
- Input is being sought from trustees, providers and members of the advisory community, with a closing date of 5 September 2023. XPS will be responding.
- The key areas covered are **trustee skills and capability**, the **role of advice** and the **barriers to trustee effectiveness**.



Actions you can take

- **Feed in your views** to the call for evidence.
- **Assess your trustee board's knowledge and understanding** and ensure you have a **training plan** that ties in with current relevant hot topics for your scheme.
- **Review the effectiveness of the trustee board** and the process for decision-making.

What evidence might the Government be looking for?

Trustee accreditation	<p>The Government appears to be of the view that there is a significant variation in the quality of decision-making from scheme to scheme, with a number of trustee boards not meeting the expected knowledge and understanding requirements.</p> <p>The implication of this is that trustee boards might not be able to make appropriate decisions around the full breadth of available investment opportunities or scheme consolidation. Given this could act as a barrier to the Government's agenda, there seems to be a steer towards some required level of trustee accreditation across all boards.</p>
Use of advisers	<p>The Government is keen to explore the role investment advisers play in trustee investment decision-making.</p> <p>The implication is that there may be limited familiarity with private assets including illiquid asset classes and early-stage investment. The policy aim appears to be to amend investment consultant regulation to ensure that the areas where the Government wants to see increased investment are included in strategic considerations.</p>
Fiduciary duty	<p>The Government appears to be of the view that the way in which trustees are exercising/interpreting their fiduciary duties could be part of a culture of risk aversion and be holding them back from exploring wider asset classes.</p> <p>The key issue here is whether the fiduciary duty for trustees to act in the best interests of the members of the scheme means ensuring that members' promised benefits are secure, or striving to get the best possible outcome for members.</p>

The finer detail: Key items covered by the call for evidence on pension trustee capabilities

Background

The DWP and HM Treasury have issued the call for evidence to deepen their understanding around trustee capabilities and potential barriers to trustees effectiveness. They cite a desire to ensure trustees have the right support, skills, knowledge and experience to undertake their challenging roles to secure the best outcomes for pension savers. It is acknowledged that this is part of a wider Government agenda to improve opportunity for investment in alternative assets and high growth businesses.

Trustee skills and capability

Knowledge and Understanding

The Government has said it wants to explore whether trustees are aware of the formal Trustee Knowledge and Understanding requirements and if these are being met in practice. There is a desire to gather information on whether trustees are able to understand, and, where appropriate, challenge the advice they receive, particularly in relation to investments and scheme consolidation.

Registration and accreditation

The Government believe that it could be beneficial to maintain a register of trustees, with each trustee uniquely identified, as is done in the charity sector, for example. The view is that this would enable better regulation of any potential requirements around trustee capabilities.

There is also consideration of whether every trustee board should be required to have a certain proportion of accredited trustees, and whether the current accreditation frameworks available are fit for purpose. Lay trustees and professional trustees are considered separately, with potential more rigorous requirements for professional trustee (noting that there would need to be agreement of a definition of a professional trustee).

The role of advice

The document points to research from The Pensions Regulator which indicated that 82% of trustee boards rarely or never disagreed with their advisers when making decisions. The Government is interested in understanding how trustees use advisers to identify and calculate risk as part of the formulation and enactment of investment strategies. In particular, they want to understand how advice provided impacts the decision whether to invest in unlisted equities. The call for evidence asks whether the investment consultant community has sufficient knowledge and expertise with illiquid asset classes and in particular unlisted equities.

Barriers to trustee effectiveness

The document considers whether the fiduciary duty for trustees to invest in the best interests of the members of the scheme is a barrier to investing in potentially high returning asset classes, given the potential risk profile. It is noted that this is considered relevant to both defined contribution and defined benefit schemes.

Another barrier to trustee effectiveness flagged is that trustees may not have enough time and support to perform their duties effectively (as for many this is a voluntary role alongside full time employment).

For further information, please get in touch with **Rob Wallace** or speak to your usual XPS Pensions contact.



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