

Regulator to set out clear expectations for trustee knowledge and governance



What you **need to know**

- The Pensions Regulator (Regulator) has responded to its consultation on the future of trusteeship and governance. It had set out proposals in three areas: trustee knowledge and understanding (TKU), scheme governance structures and driving defined contribution (DC) scheme consolidation.
- In response, the Regulator has said it will take forward actions in each of these areas. In particular the Regulator will:
 - 1 Provide updated expectations on TKU, consulting on changes in the first half of 2021;
 - 2 Set up an industry working group on improving board diversity, and carry out a further review of sole trusteeship while supporting the development of an industry code on sole trusteeship; and
 - 3 Not mandate but rather monitor DC consolidation activity and work with industry and Government to overcome barriers to consolidation.



Actions you can take

- Ensure all trustees of your scheme are aware of upcoming changes and the Regulator's expectations.
- Review the operation of your trustee board and approach to training in advance of the new TKU requirements.
- If considering sole trusteeship for your scheme, ensure you look at managing conflicts of interest and member engagement and look out for the upcoming APPT industry code.
- Consider joining the industry working group on board diversity before 29 February 2020. Apply by emailing: futuretrusteeship@tpr.gov.uk.

Proposals the Regulator will take forward

Proposal	Adopted	Comment
Update support for trustees	✓	Will update TKU content, code and guidance.
Continuous Professional Development requirement	✗	No CPD requirement but will state how to demonstrate TKU.
Minimum qualification	✗	Will not seek a change in legislation to require qualifications.
Mandated professional trustee	✗	May revisit at a later date.
Board diversity reporting	✗	Will instead establish an industry working group.
Mandate DC consolidation	✗	Will monitor activity while looking for ways to remove barriers.

The finer detail: Regulator views on the future of trusteeship and governance

Why the Regulator consulted

The Regulator recognises the pension landscape is evolving with more and younger people saving for retirement. There is a shift from single employer (largely DB) to multi-employer (largely DC) schemes and more savers are bearing risk. As a result, it is determined that savers have well run schemes with excellent standards of governance.

Trustee Knowledge and Understanding:

Content and level

The Regulator recognises the nature of what trustees need to know has changed with changes to laws and risks over the 15 years since TKU was introduced. It will review and update the TKU Code, ensuring the content and level of TKU are relevant to current circumstances and the trustee role-type. It will consult on this in early 2021.

Demonstrating TKU

After a reasonable period for the above to bed in, the Regulator will check trustees can demonstrate compliance and engage with schemes not meeting its expectations. To help with this, it will articulate a range of methods to demonstrate TKU. It is also considering guidelines for ongoing learning – with an indicative baseline of 15 hours proposed for lay trustees and 25 hours for professional trustees.

Education

The Regulator will look to improve its online Trustee toolkit over 2020 to 2021. This will look at content, practical learning and keeping training relevant and up to date.

Time

The Regulator intends to reinforce with employers that lay trustees need to be given paid time off to meet their trustee duties.

Governance and decision making:

Board diversity

The Regulator will create an industry working group that will deliver guidance, tools and materials to help improve diversity on trustee boards. However, it will not require trustee boards themselves to report on diversity.

Professional trustees

The Regulator recognises it is not feasible to mandate that a professional trustee sit on every scheme board. It may revisit this idea in the future.

Sole trustees

The Regulator has concerns over sole trusteeship, particularly around management of conflicts of interest. For now it will support the expected Association of Professional Pension Trustees (APPT) industry code for sole trusteeship and continue to review schemes with a sole trustee.

Driving DC Consolidation:

Areas considered

In its consultation, the Regulator explored a number of areas that may be barriers to DC consolidation. Barriers included guarantees, wind up costs and loss of trustee oversight if DC benefits are assigned to individuals.

Approach to DC consolidation

The Regulator considered requiring consolidation of DC schemes with poor governance standards. Instead, for now, it will monitor consolidation activity and work with industry and the Department for Work and Pensions to remove barriers to consolidation.

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



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