The Pensions Regulator's single code of practice:

Spotlight on good governance

July 2021

Significant new governance requirements raise the bar for trustees

The Pensions Regulator's ('TPR') new single Code of Practice (the 'Code') is expected to be implemented at the end of 2021. It will consolidate 10 of the 15 existing Codes into 51 new web-based modules. The Code will also include the requirements of the second European Pensions Directive (commonly known as IORP II) as reflected in the Governance Regulations[1]. As a result of the single Code, new governance responsibilities for trustees of both DB and DC pension schemes will be introduced.

Having a defined and robust governance framework for your scheme is fundamental to making good decisions and achieving better outcomes for your members. It puts your scheme ahead of the pack when it comes to dealing with the unexpected and taking advantage of market opportunities. We welcome the overall aim of the Code and encourage governing bodies[2] to embrace the new requirements proportionately and in a way that enhances how they operate.

This summary highlights the key aspects of the new Code. If you would like any assistance or further information, please contact us.

Rachika Cooray FPMI
Partner
Head of Governance

rachika.cooray@lcp.uk.com
+44 (0)20 7432 6658

What you can do to prepare for the new Code

- ✓ Familiarise yourself with the draft Code and TPR's expectations.
- ✓ Consider whether you would benefit from receiving training on the new Code.
- ✓ Decide who will undertake the new Functions (see page 3) introduced by the Code.
- ✓ Review your scheme's governance frameworks against the effective system of governance ('ESOG') requirements so that you can identify any gaps that might need to be addressed.
- ✓ Consider how you will resource these additional governance requirements and who will carry out your first own risk assessment ('ORA').

[1]The Occupational Pension Schemes (Governance) (Amendment) Regulations 2018.
[2]A 'governing body' refers to Trustees or managers of occupational pension schemes, personal pension schemes and public service schemes that are regulated by TPR.

Effective system of governance ('ESOG')

Schemes with more than 100 members[3] are required to establish and operate an effective system of governance. Whilst TPR have broadly the same expectations for each type of scheme, the systems and controls put in place by a scheme should be proportionate to its size, nature, scale and complexity.

An effective system of governance framework will include processes and procedures relating to:

The management of the governing body, including its role, meetings and decision-making, remuneration, knowledge, dispute resolution, and continuity planning.

The organisational structure of the governing body, including the role of the chair, management of conflicts of interest, and managing advisers and providers.

Investment matters, including investment governance, decision-making, monitoring, stewardship, and climate change.

Communications and disclosure to members.

Many pension schemes will already have robust governance frameworks in place and meet most of the requirements for an effective system of governance. However, it is likely some changes to schemes' existing policies and processes will be required. In particular, trustees will need to meet the new requirements of putting in place written policies on:

- the remuneration of all persons or corporate bodies who effectively run the scheme;
- the appointment of advisers and providers;
- continuity and succession planning for trustees, advisers and providers;
- the identification and management of adviser conflicts; and
- IT systems and cyber security.

Once an effective system of governance is established, each element should be reviewed at least every three years (or sooner if there is significant change to the scheme's governance or key risks) to see whether it is functioning as planned. Trustees should have policies in place for effective system of governance reviews, and these policies should also be reviewed every three years.

Own risk assessment ('ORA')

The most significant new requirement is for schemes with more than 100 members[3] to undertake and document an own risk assessment, which is an examination of how well the effective system of governance is working and how any potential risks are being mitigated. It is different because it goes beyond a scheme's usual risk management processes.

The Code sets out what an own risk assessment will need to cover, in particular:

How the trustees have assessed - the effectiveness of each of the policies and procedures covered by their own risk assessment and whether the trustees consider these to be effective and why.

Policies for the governing body – including how risk assessment and mitigation is integrated into management and decision-making processes, and policies relating to the role and knowledge of the governing body.

Risk management policies – including internal controls policies, management of conflicts, and continuity and succession planning.

Investment – including investment governance processes, stewardship, investment monitoring and decision-making, climate change, protection of member benefits on sponsor insolvency, assessment of protection mechanisms such as sponsor guarantees, and risks relating to indexation of benefits.

Administration – including risks associated with financial transactions, scheme records and receiving contributions and how the trustee manages overdue contributions.

Payment of benefits – including how the governing body assesses operational risks such as record-keeping and payment of benefits, and the management of risks relating to potential reductions to member benefits.

A scheme must produce its first own risk assessment within 12 months of the Code coming into force, and then annually. The own risk assessment must be in writing and signed by the Chair of Trustee and made available to TPR on request. The findings of each own risk assessment should be incorporated into the Trustees decision-making and risk management processes and may result in changes to the scheme's governance frameworks.

[3]Excluding authorised Master Trusts and most public sector schemes

New functions introduced in the Code

A **Risk Management Function**, which may be a sub-committee or an independent body, to which the governing body delegates responsibility for identifying, evaluating, monitoring and reporting on key risks and internal controls.

An **Internal Audit Function** which is responsible for independently evaluating the adequacy and effectiveness of the system of governance. This is different and wider in scope to the annual statutory audit and includes non-financial processes and controls. This Function may, for example, be carried out by the Sponsor's in-house internal audit function, an outsourced provider or a third party audit firm.

An **Actuarial Function** which is simply the Scheme Actuary role for DB Schemes.

How can we help

LCP's Pensions Management Consulting team of governance consultants and scheme managers, along with other specialists at LCP, are well placed to help you meet the new requirements in the single Code of Practice.

Our services

Governance Healthcheck

- Review your existing governance framework against the effective system of governance requirements of the Code of Practice.
- Identify any governance gaps for the trustees or in-house team to address.

Governance Healthcheck Plus

- As per the Governance Healthcheck plus drafting and implementing any new policies and procedures that have been identified to meet ESOG requirements.

LCP's own risk assessment (ORA) service

- Specialist own risk assessment in line with TPR guidelines.
- Identification of any areas that require further focus.
- Presentation of findings to the board and assistance with agreeing next steps.

We take a tailored approach to consulting and if you prefer, we can deliver a bespoke service to meet your needs.

How our approach benefits you

✓ Specialist support provides comfort of good governance.

✓ Professional support introduces independence.

✓ Gives the trustees a clear plan of action of what areas need more focus.

✓ Trustees benefit from our deep understanding of governance best practice and our experience of working with many different schemes.

✓ Relieves the extra governance burden that might otherwise fall to the in-house pensions team or the trustees themselves.

✓ Allows trustees to focus on high level and strategic issues, leaving the detail to us.

✓ Our support is tailored to meet your needs and the approach taken will be proportionate to your scheme's size, nature, scale and complexity.

Want to find out more?

If you would like further information, please contact one of our specialists or your regular adviser for more support.

Rachika Cooray
Partner, Head of Governance and Trustee Executive Services
rachika.cooray@lcp.uk.com
+44 (0)20 7432 6658

Joanna Godfrey
Senior Consultant
Joanna.Godfrey@lcp.uk.com
+44 (0)20 3824 7260

George Currie
Consultant, DC Specialist
George.Currie@lcp.uk.com
+44 (0) 20 3824 7424

Steve Hodder
Partner, Investment specialist
Steve.Hodder@lcp.uk.com
+44 (0)1962 672929

Claire Jones
Partner, Head of Responsible Investment
Claire.Jones@lcp.uk.com
+44 (0)1962 873373

Jill Ampleford
Partner, Head of Trustee Consulting
Jill.Ampleford@lcp.uk.com
+44 (0)20 7432 6757

We are also experienced in supporting trustees and sponsors with many areas of governance including the following:

- Board effectiveness reviews
- Risk reviews
- Professional trustee secretarial and trustee executive services
- Adviser performance reviews
- Strategic business planning
- Bespoke trustee training
- Board diversity training
- Groupthink workshops
- MNT selection processes
- Professional trustee selection
- Third party administrator procurement
- Review of trustee skills and competencies
- Online document storage
- Trustee governance policies
- Advice on board composition
- PRINCE II project management
- Integrated Risk Management
- Conflicts management
- Value for Members assessment (carried out by our DC team)

At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy and financial wellbeing.