

# Sixty second summary

## 21st Century Trusteeship & Governance

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The Pensions Regulator has published a discussion paper that explores ways to improve standards of pension trusteeship.<sup>1</sup> Although it recognises that many trustee boards are doing a good job, the Regulator is aware that not all are meeting its governance expectations, and that others are finding it difficult to do so. The discussion paper highlights some research findings and puts forward ideas for steps that could be taken (including legal changes that could be made) to improve standards of trusteeship and governance.

### Professional trustees

The Regulator notes that the proportion of schemes with a professional trustee has increased in the last five years. It asks whether professional trustees should be required to have particular qualifications or be registered with a professional body (at the moment there are no such requirements).

### Chair of trustees

The Regulator acknowledges that the role of the trustee chairperson is important in supporting and leading trustee boards and is keen to ensure that this task is carried out effectively. The Regulator suggests that chairpersons could be required to possess a minimum level of qualification or experience, or to belong to a professional body.

Since April 2015, many schemes providing money purchase benefits have been required to have a chair of the trustees, who is responsible for signing a statement on compliance with governance obligations on the trustees' behalf. The discussion paper asks whether defined benefit schemes should be subject to similar requirements. (The Regulator also put this suggestion to the House of Commons Work and Pensions Committee and to the Department for Work and Pensions (DWP) in connection with the Committee's inquiry into the collapse of BHS.)

### Trustee knowledge and understanding (TKU)

The Regulator's research suggests that one-fifth of trustee boards are either unfamiliar with *Code of Practice No. 7: Trustee Knowledge and Understanding* or do not know whether their non-professional trustees have the level of TKU that the Code requires. The Regulator suggests that trustees could be required to complete its online Trustee Toolkit (or equivalent training) within six months of appointment, or that the appointment of new trustees could be subject to a six-month probationary period with appointments only made permanent if the required TKU is demonstrated. Feedback is also sought on how trustees can demonstrate that they have achieved the minimum level of competence to fulfil their role: for example, whether it would be appropriate to require them to have relevant qualifications.

The Regulator is interested in views as to whether a continuous professional development (CPD) framework would help trustees to meet the challenges of scheme governance.

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<sup>1</sup> <<http://thepensionsregulator.gov.uk/docs/21st-century-trusteeship-governance-discussion-2016.pdf>>.

## Engagement with governance activities

Helping trustees to provide good governance for their schemes and work effectively with advisers is a priority for the Regulator. It intends to revise the online tool that it developed to assist trustees in assessing their scheme against the DC 'quality features', to reflect the standards of conduct that are expected under the new *Code of Practice No 13: Governance and Administration of Occupational Trust-based Schemes Providing Money Purchase Benefits*. It will also produce a self-assessment tool for public sector schemes to allow them to assess the quality of their governance and administration arrangements.

## Schemes unwilling or unable to deliver good governance

The Regulator seeks opinions on what should happen to schemes that are unwilling or unable to deliver good governance and satisfactory member outcomes. In particular it asks if small, non-compliant schemes should be forced to leave the market or be consolidated.

## Contributing to the discussion

Comments on the discussion paper are sought by 9 September 2016.

The Regulator appears to be moving towards the professionalization of trustees in general, and the chair of trustees in particular, as a way to raise standards. Whilst we welcome the Regulator's desire to raise standards and ensure that trustees are capable of performing their duties, we are cautious about imposing additional burdens upon them.

We are already in a regulatory-heavy environment, and finding willing trustees can be hard. Any new barriers to entry, such as qualifications, will further narrow the pool of individuals from which candidates can be drawn. We are also conscious of the cost implications of additional training or examinations, or a requirement to appoint a professional trustee, particularly for small schemes.

It would be a concern if the role of the non-professional trustee were to be diminished, either directly or as an indirect consequence of regulation. In the running of trustee boards, pensions knowledge (whilst essential) is sometimes of secondary importance to the wider skills that a person can bring. For example, ensuring that there is a strategic vision which has the support of all trustees and the employer is often a key component of the work of the chairperson, and one that draws on capabilities other than pure pensions expertise. Introducing a trustee qualification is unlikely to deliver such skills, which will still be important within any new framework.

Recent Pensions Regulator interventions do not seem to justify an increase in the burden of compliance across the industry, and the number of persons that the Regulator has prohibited from acting as trustees is small. This does not indicate to us that there is any fundamental flaw in the current model. We are in favour of measures that promote effective governance, but 'if it ain't broke, don't fix it'.