

New legislation on investment and disclosure

➤ Matthew Swynnerton looks at new regulations in relation to the Statement of Investment Principles (SIP)

Following the DWP's June consultation on proposals to amend legislation to clarify and strengthen trustees' investment duties, regulations have been made and the government's response to the consultation has been published. Whilst the regulations do not come into force until 1 October 2019 (or 1 October 2020 for some provisions), trustees will need to prepare to ensure that they are ready to comply with the new requirements.

Members' views

A key change made since the consultation is that the proposed new requirement for trustees to prepare a separate statement explaining the extent to which members' views will be taken into account in preparing or revising the SIP has been removed. The response reports that a significant proportion of respondents raised concerns about this part of the policy intent or believed that the proposed approach would be misunderstood. For example, some stakeholders were concerned that they were being expected to survey members. The response confirms that it had not been intended to imply that trustees must survey members or act on members' views about how their scheme is invested. In the final version of the regulations, this proposed new requirement has been removed and replaced with an optional policy on non-financial matters.

Changes that apply to all schemes required to prepare a SIP

The existing provisions in relation to including policies on social,

environmental or ethical considerations and stewardship in the SIP are being deleted and replaced. Under the amended regulations, by 1 October 2019 trustees will need to update their SIP so that it covers their policies in relation to:

- financially material considerations over the appropriate time horizon, the concept of an appropriate time horizon having been added following the consultation (financially material considerations are defined as including but not being limited to environmental, social and governance considerations (including climate change), which the trustees consider financially material);
- the extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments; and
- the exercise of the rights (including voting rights) attaching to the investments, and undertaking engagement activities in respect of the investments.

Additional requirements for schemes providing money purchase benefits

Some additional requirements will apply in the case of 'relevant schemes', that is, schemes that provide money purchase benefits (subject to some exceptions including schemes where the only money purchase benefits are attributable to AVCs). However, unless they fall into one of the other limited exceptions, the definition of 'relevant scheme' does include dual section hybrid schemes which have a DB section and a DC section from sources other than AVCs.

- The new requirements in relation

to financially material considerations and non-financial matters also apply to the SIP for the default arrangement. Following the consultation, an amendment has also been made so that the new requirement in relation to policies on stewardship will apply to the SIP for the default arrangement if the scheme has 100 or more members.

- By 1 October 2019 trustees of relevant schemes will be required to make their SIP publicly available on a website.
- From 1 October 2020 trustees of relevant schemes will have to produce an implementation statement setting out how, and the extent to which, the SIP has been followed and any changes made to it during the year, and this statement will also have to be published.

Members will have to be informed of the availability of the SIP and the implementation statement via the annual benefit statement.

Next steps

The Pensions Regulator will be publishing high level guidance on the key changes. Trustees should start to prepare for the coming into force of the new requirements including identifying which changes are applicable to their scheme, and considering what amendments they will need to make to their SIP and, where applicable, how they will comply with the publication requirements and the requirement for an implementation statement.



➤ Written by Matthew Swynnerton, pensions partner at DLA Piper

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