

Trustee SIP requirements

➤ **Trustees should take note of important changes coming into force on 1 October 2020 in relation to Statements of Investment Principles (SIP) and disclosure**

Changes to the legislation on investment and disclosure made in 2018 (the 2018 regulations) and 2019 (the 2019 regulations) reflect an increasing focus on stewardship and governance when it comes to trustee investment activity. The first round of changes came into force on 1 October 2019 and included, perhaps most significantly, a requirement for trustees to include in their SIP their policy in relation to ESG factors, including climate change. Now, trustees must prepare for another round of changes to their SIPs, due to come into force on 1 October 2020.

Some of the new requirements only apply to 'relevant schemes' and some only apply to schemes that are not relevant schemes. Generally speaking, a relevant scheme means a scheme that provides money purchase benefits.

Changes that apply to all schemes required to prepare a SIP

By 1 October 2020, trustees will need to update their SIP so that it includes their policy in relation to arrangements made with an asset manager. This policy must address matters including: (i) how the arrangement incentivises the asset manager to align its investment strategy with the trustees' investment policies; and (ii) how the arrangement incentivises the asset manager to make decisions based on assessments about the medium to long-term performance of a debt or equity issuer. Trustees will have to include this policy in the first Annual Report that

they prepare on or after 1 October 2020.

The 2018 regulations made amendments to the requirement for policies on stewardship so that, by 1 October 2019, trustees had to update their SIP to include their policy on engagement activities in respect of investments including engagement with 'relevant persons' and 'relevant matters'. The 2019 regulations made amendments to the definition of relevant persons and added capital structure and management of conflicts of interest to the list of relevant matters. The policies will have to include these points by 1 October 2020.

Changes that apply to relevant schemes

The 2018 regulations introduced provisions coming into force on 1 October 2020 requiring trustees of relevant schemes to produce an implementation statement (implementation statement) as part of their annual report. Generally speaking, an implementation statement should set out how and to what extent trustees' investment activity over the course of the previous year reflects the investment strategy, as set out in the scheme's SIP. The 2019 regulations added a further requirement for the implementation statement to report on voting behaviour by or on behalf of the trustees during the year. The first implementation statement should be included in the first annual report produced on or after 1 October 2020 and then published. It is also worth noting that the 2019 regulations include a deadline which means that certain

information in the implementation statement must be published no later than 1 October 2021. Furthermore, trustees must inform scheme members of the availability of the implementation statement via the annual benefit statement.

The policy in relation to arrangements with asset managers and the additional information in the policy on stewardship will also have to be included in the SIP for the default arrangement for relevant schemes with 100 or more members by 1 October 2020.

Changes that apply to DB schemes

Trustees of DB schemes must include information in their first annual report produced on or after 1 October 2020: (i) about how their policy on stewardship has been followed; and (ii) describing the voting behaviour during the year. The trustees will have to publish their first report on these matters by 1 October 2021. In addition, by 1 October 2020 trustees of DB schemes will have to make their SIP publicly available on a website, free of charge.

Next steps

Trustees should identify which requirements apply to their scheme and the relevant deadlines sooner rather than later. Obtaining and evaluating the necessary information may require time and effort. Trustees may also wish to refer to The Pensions Regulator's guidance for DC schemes, which includes information about implementation statements, the DWP's guidance on the requirement to publish information and the PSLA's guidance (published at the end of last month) about the reporting requirements.



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