

First Briefing, April 2022 – The Pensions Regulator's single code of practice

The Pensions Regulator (TPR) has issued a draft single code of practice, which, once finalised, is expected to come into force in the summer of 2022.

The draft single code has 51 separate modules and will consolidate 10 of the 15 codes of practice as well as introducing new governance responsibilities for trustees of both Defined Benefit and Defined Contribution schemes.

Trustees should consider the draft single code to understand the implications for their scheme. Existing governance policies should be reviewed in light of the new requirements being introduced.

Effective system of governance

The new code introduces a requirement for trustees to establish and maintain an *effective system of governance* (ESOG). This should be *proportionate to the size, nature and complexity* of the scheme.

It should provide the trustees with oversight of the day-to-day operations of the scheme and assurances that the scheme is operating correctly and in accordance with the law. It will include processes and procedures relating to:

- The trustees' policies on meetings and decision-making, remuneration, knowledge and understanding, risk management, conflicts of interest, continuity planning and appointment of advisers and service providers
- Investment governance, including decision-making, investment monitoring, stewardship, and climate change
- Administration, including contributions and financial transactions, scheme data and record-keeping, and IT systems and cyber-security
- Communication and disclosure to members.



Once established, policies should be reviewed at least every three years, to ensure they are functioning as intended.

Own risk assessment

The draft code also introduces a requirement for trustees of schemes with more than 100 members to carry out and document an *own risk assessment* (ORA) of how well the ESOG is working, and the way risks are managed.

Schemes must prepare and sign off their first ORA within 12 months of the code coming into force (assuming the new code comes into force this summer, the first ORA will be required by the summer of 2023). The ORA should then be reviewed each year. TPR has stated that preparing the ORA will be a *substantial process* and that trustees *may need to expand their risk assessments* to meet the new requirements.

The ORA will need to be in writing and be signed by the chair. It will need to cover:

- How the trustees assessed the effectiveness of their policies and procedures, and the outcome
- The governing body's policies
- Risk management processes
- Investment governance
- Administration.

© First Actuarial LLP 2022 all rights reserved.

The information contained in this bulletin is, to the best of our knowledge and belief, correct at the time of writing. However, First Actuarial cannot be held liable for any errors contained herein and the recipient accepts that the information stated is provided on an "as is" basis. This briefing is for general information only. It does not and is not intended to constitute advice. Specific advice should always be sought from the appropriate professional on all individual cases.

Regulated in the UK by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

First Actuarial LLP is a limited liability partnership registered in England & Wales. Number OC348086.

Registered address: First Actuarial LLP, Mayesbrook House, Lawnswood Business Park, Leeds, LS16 6QY

The ORA must also be provided to TPR on request.

Other new requirements

The code introduces a number of other new requirements:

Remuneration policy

Trustees should establish a written remuneration policy and review it at least every three years. This should cover those involved in running the scheme or carrying out key functions (including any outsourced providers) and should explain the decision-making process for the various levels of remuneration and why they are appropriate.

Policy on appointment of advisers and service providers

Trustees should establish a policy covering their approach for the selection, appointment, management and replacement of their advisers and service providers. This should be reviewed every two years.

ESG and climate change

Trustees should consider Environmental, Social and Governance (ESG) matters in their investment decision-making process. They should document and maintain processes for identifying and assessing climate change risks and opportunities.

Stewardship

Trustees should identify how to exercise the rights and responsibilities relating to the investments they hold and ensure they are familiar with their investment manager's stewardship policies.

Data and IT

Trustees should implement policies to ensure scheme data is complete, up to date and held securely. They should also assess and manage cyber risks, including an assessment of service providers' internal controls and cyber security processes. A cyber incident response plan should also be put in place.

Knowledge and understanding

There are significant updates to the existing *Trustee knowledge and understanding code of practice*. We expect that this will mean significant changes to the trustee toolkit in due course.

What should trustees be doing?

There are a number of actions trustee boards can take to prepare for the new code:

- Review your scheme's current governance policies and processes against the draft code to identify any gaps
- Prepare an action plan for any new policies or procedures that will be required by the new code
- Review your current risk framework and assess whether this is sufficiently robust to meet the standard required by the new code. This should include your approach to cyber risk management.

How can First Actuarial help?

We can help you by:

- Assessing your current governance policies and processes against the draft code and providing a 'gap analysis' report setting out recommended improvements
- Preparing an action plan to help manage the introduction of new policies and processes
- Providing draft policies for the various governance areas set out in the new code.

Further information

For further information, please contact your usual First Actuarial consultant.