

First Briefing, January 2024 – The Pensions Regulator’s general code of practice

The Pensions Regulator’s (TPR) general code of practice has now been laid before Parliament and is expected to come into force on 27 March 2024.

The general code has 51 separate modules and consolidates 10 of the existing codes of practice. It also introduces new governance responsibilities for trustees of both Defined Benefit (DB) and Defined Contribution (DC) schemes.

Trustees should start working with their advisers to understand the implications for their scheme if they’re not already doing so. Existing governance policies should be reviewed in light of the new requirements, and monitoring arrangements put in place.

Effective System of Governance

The new code requires trustees to establish and maintain an *Effective System of Governance* (ESOG). This should be “proportionate to the size, nature, scale and complexity” of the scheme.

It should give trustees oversight of the day-to-day operations of the scheme and that the scheme’s operations are compliant and correct. It should include processes and procedures relating to:

- The trustees’ governance policies – on recruitment and appointment of trustees, meetings and decision-making, remuneration and fees, knowledge and understanding, risk management, conflicts of interest, continuity planning and management of advisers and service providers
- Investment governance – including decision-making, investment monitoring, stewardship, climate change, and default arrangements and charge restrictions for DC schemes



- Administration – including planning and maintenance, contributions and financial transactions, transfers out, scheme data and record-keeping, and maintenance of IT systems and cybersecurity
- Communication and disclosure to members – including general principles around communications, statutory communication requirements and pension scams
- Reporting to TPR, including regular reporting, whistleblowing requirements and reporting on payment failures.

Once the ESOG is established, trustees should set up an appropriate timetable for ongoing review of their governance policies to ensure they’re functioning as intended. This should take place at least every three years.

Own Risk Assessment (ORA)

The code 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 potential risks are managed.

Schemes must document their first ORA within 12 months of the end of the first scheme year that begins after the code comes into force. In practice this means 2026 for most schemes. It should then be reviewed at least every three years.

The ORA should also be reviewed when elements of the risk management processes are created or updated, and whenever there is a material change to the ESOG or risks facing the scheme.

The ORA, which must be in writing and signed by the chair, will need to cover:

- How the trustees assessed the effectiveness of their policies and procedures, and the outcome
- The operation of the trustees’ governance policies
- Risk management processes
- Investment and funding
- Administration and payment of benefits.

Other new requirements

The code introduces several other new requirements:

Remuneration policy

Trustees of schemes with 100 or more members should establish a written remuneration policy which must be reviewed at least every three years, covering:

- Activities paid for by the scheme
- Individuals involved in running the scheme or carrying out key functions (including any outsourced providers).

It should also explain the decision-making process around the various levels of remuneration and why they are appropriate.

Policy on appointment of advisers and service providers

Trustees of schemes with 100 or more members 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 three years.

Climate change and stewardship

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

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 service providers’ internal controls and cyber security processes, and have suitable policies and controls in place to mitigate cyber risks.

Risk management function

Trustees of schemes with 100 or more members are also required to establish a separate *risk management function* to review the key risks and report on these to the trustees on a regular basis. This is in addition to the ORA requirement.

What should trustees be doing?

While the code is expected to come into force on 27 March 2024, TPR recognises that trustees may not be fully compliant straight away, stating that:

At the very least governing bodies should be aware of where they fall short of our expectations and have clear and realistic plans in place to address those shortcomings.

There are several actions trustee boards will need to take if they haven’t done so already:

- Review the scheme’s current governance policies and processes against the requirements of the code to identify any gaps
- Prepare an action plan for any required new policies or procedures as well as revisions to existing policies or procedures
- Establish a process for effective ongoing monitoring of the ESOG, to include a timetable for review of the scheme’s governance policies and procedures at an appropriate frequency
- Review the current risk framework and assess whether it’s sufficiently robust to meet the standard required by the new code. This should include cyber risk management.

How can First Actuarial help?

We can help you by:

- Assessing your current governance policies and processes against the code, and providing a 'gap analysis' which sets 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
- Establishing an online tool to help you monitor the ESOG effectively and efficiently, and ensuring governance policies and procedures are reviewed at the right time.

Further information

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