

Keeping up with developments

Further updates to SIPs and implementation statements



It is only six months since trustees of pension plans with 100 or more members last needed to update their statement of investment principles (“SIP”) to reflect new disclosure requirements on environmental, social and governance (“ESG”) issues. Trustees of both defined benefit (“DB”) and defined contribution (“DC”) plans should now be turning their minds to how they will meet further rules, which will apply from 1 October 2020 - requiring them to make further updates to their SIPs and tell members how they have implemented those requirements.

This blog sets out:

- further updates that trustees will need to make to their SIPs by 1 October 2020
- where trustees will need to disclose their SIPs and implementation statements on a publicly available website
- how trustees can meet their obligations to prepare their first implementation statements
- steps trustees should consider taking now to comply with these new rules

Which rules are “relevant” to your plan?

The specific requirements that will apply to your pension plan depend upon whether it is a “relevant plan”. “Relevant plans” are, broadly, occupational pension plans which:

- have more than 12 members
- provide money purchase benefits
- are not otherwise exempt (e.g. hybrid plans whose only money purchase benefits are attributable to additional voluntary contributions (“AVCs”), executive pension plans and certain public service plans)

I refer below to:

- “DC/hybrid plans” (by which I mean, “relevant plans”)
- “pure DB/DB +AVC plans” (by which I mean DB plans which are not “relevant plans”)

Further updates to SIPs

By 1 October 2020, trustees will need to have updated their SIPs to disclose the trustee’s policies on:

- arrangements with asset managers – i.e. how the Trustee incentivises asset managers to reflect the Trustee’s investment policies and make decisions based on longer-term financial assessments
- further engagement activities, covering a wider range of “relevant persons” and “relevant matters”

These new requirements will apply both to both the ordinary SIP of both DB and DC plans (regardless of whether they are used for auto enrolment purposes) and the default arrangement SIP of DC/hybrid plans.

Some trustees may have already chosen to comply with these rules when they updated their SIPs to reflect the rules that applied from 1 October 2019. Those that chose not to include these changes in 2019 will need to take steps to update their SIPs ahead of the 1 October 2020 deadline.

Public disclosure of SIPs and implementation statements

DC/hybrid plans

By way of reminder, trustees of DC/hybrid plans have needed to publish their SIP on a publicly available website since 1 October 2019.

From 1 October 2020, those trustees will also need to report on a publicly available website on how they acted on the principles in their SIP concerning engagement through an "implementation statement" and also inform members in their annual benefit statement. This information will need to be updated from October 2021 to set out information on the trustees' voting behaviour over the year.

Pure DB/DB +AVC plans

The requirements for trustees of pure DB/DB +AVC plans are slightly less onerous. They will need to:

- publish their SIP on a website from 1 October 2020
- report on their voting behaviour and how they followed their policy on engagement activities during the plan year in an "engagement policy implementation statement" in their next annual report published from 1 October 2020 (described below) and publish the information on a publicly available website by 1 October 2021

How to prepare an implementation statement – DC/hybrid plans

The implementation statement will form part of the investment report in the next annual report for DC/hybrid plans published from 1 October 2020.

These new requirements build on existing obligations which require trustees to disclose whether their investment policies have been breached. However, they are more subjective and require greater detail than earlier standards. They require trustees to set out their own "opinion" and to "describe" and "explain" how they have reviewed and changed their

investment policies, setting out reasons for doing so. So trustees should allow enough lead time to address the new requirements.

The changes are intended to encourage trustees to consider and explain how they have implemented their policies more proactively. The Government's aim is that this "will ensure that the text reflects what pension plans aim to do, and that plans act on the principles they set out."

The Pensions Regulator echoes these principles in its guidance, noting that: "The purpose of the report is to help ensure that 'action follows intent' as far as possible. The process of having to consider the content of the report will help to focus trustees' minds on how well their investment policies and stewardship arrangements are delivering against their plan's agreed investment principles."

The Regulator warns against producing a 'tick box' report, and encourages trustees to include "relevant useful information... so members can be confident their expectations are being met".

How to prepare an "engagement policy implementation statement" - pure DB/DB +AVC plans

The trustees of pure DB/DB +AVC plans are required to prepare a more limited form of the implementation statement in the next annual report published from 1 October 2020. It will require DB trustees to:

- set out how and the extent to which, in the opinion of the trustees, the policies in the SIP relating to the exercise of voting rights and engagement activities have been followed during the plan year
- describe voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year (as for relevant plans – see above)



Next steps

Trustees should:

- review their SIPs and consider whether they need updating ahead of October 2020 and ensure that they leave sufficient time to consult with their sponsors on the changes to their SIP
- determine whether they will need to publish further information on their websites and prepare an “implementation statement” or an “engagement policy implementation statement”

Where trustees are required to produce an implementation statement, they should start this process early and consider:

- whether there are any areas where they may need to obtain further information (e.g. from their asset managers and investment consultants) in order to prepare these statements
- whether they should delegate preparing a draft statement to a particular set of individuals or a sub-committee

Trustees and providers should also consider how the steps they are taking to comply with the new disclosure rules:

- reflect how they communicate with members more generally
- could lead to greater scrutiny from industry groups concerning how they handle ESG and climate change



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Further information on these requirements, and additional requirements to manage climate change risk proposed in the Pension Schemes Bill, is set out in the [latest edition of our pensions investment newsletter](#).

