What do Trustees of small and medium sized UK pension schemes need to do about the new SIP regulations?

If you have fewer than 100 members in your scheme you can probably stop reading now as regulations do not require that you produce a Statement of Investment Principles (SIP)! However, for those with more than 100 members it is likely that you will need to make some changes to your SIP by 1 October 2019.

What is happening?

The Department for Work and Pensions (DWP) has been consulting over changes to the regulations related to, but not limited to, Environmental, Social and Governance (ESG) factors. This consultation has completed and the key conclusions are that from 1 October 2019 onwards Trustees of UK occupational pension schemes with more than 100 members must update their SIP to:

- Explain how they have taken account of "financially material considerations over the appropriate time horizon of the investments", including (but not limited to) those arising from ESG considerations, including climate change;
- State their policy on stewardship of the investments through their engagement with companies and how voting rights are exercised;
- (Optional) State how "non-financial" matters have been taken into account. This is only required if Trustees have taken account of non-financial matters, for example, if ethical investment criteria have been applied.

In addition to this "relevant schemes" (which broadly means schemes with DC sections, but excluding any DB schemes where the only DC section is the AVC arrangements) will also need to:

- Update their SIP on the default arrangement;
- Publish their SIP on a public website (and provide a link to this on the Annual Benefit Statement);
- From 1 October 2020, publish an implementation statement on the SIP. The aim of this is to improve disclosure to members and improve governance practices and this is consistent with other disclosure requirements for DC schemes (e.g. on cost and the Chairman's statement).

Importantly, the DWP has confirmed that it is not UK government policy to direct how assets are invested and that this will remain at the absolute discretion of trustees.

Cartwright view

We welcome the changes to the regulations. In an investment world where there is much focus on short-term performance it is crucial that trustees of schemes with a long time-horizon have clear long-term objectives and consider long-term factors when investing.

We expect the initial requirements to amend the SIP to be relatively straightforward for most schemes as it is a documentation of current practice, rather than a requirement to do more. Since the majority of small to medium sized schemes invest in pooled funds rather than direct holdings there are limited options to change how ESG is taken into account in the short-term. We therefore expect any changes to the way investments are managed to be gradual, with some schemes opting to use funds with stronger ESG policies in place, and for some of those investment managers with weaker polices to up their game.

The requirement (from 1 October 2020) for "relevant schemes" with DC sections to produce an implementation statement seems in isolation a little heavy handed and is no doubt targeted at the large DC master trusts, but it is hard to argue that it won't drive up governance standards. We think this is a further example of what to expect in the coming years; there is a desire to raise governance standards for pension schemes and this can only mean more documentation and more centralised assurance that schemes are being well run. In other words, the job of the trustee isn't getting any easier!

What do I need to do about it?

For trustees of DB schemes:

- Make sure that you have copies of investment managers' policies on corporate governance, stewardship and ESG (including climate change risk);
- Make sure you are clear on what your investment time horizon is;
- Consider if you have any appetite to do more than you are currently doing;
- Update your SIP by 1 October 2019.

For "relevant schemes" you also need to:

- Update the SIP for the default arrangement;
- Publish the SIP on the same website you use for other DC disclosures;
- Produce the first annual implementation statement by 1 October 2020.

If you would like help with this or wish to discuss this further, please get in touch with Adam Gregory, Senior Investment Consultant, Tel 01483 860201, or your usual contact at Cartwright.

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