

21st Century Trusteeship and Governance Response to Discussion Paper

Independent Trustee Services Ltd is a firm of professional pension trustees and as such has a vested interest in promoting the role of professional trustees generally and in driving up the standards of professional trustees. All our Directors who hold trustee appointments are required to comply with annual CPD requirements as well as adhere to our internal policies and governance procedures. We are members of The Association of Corporate Trustees (TACT) and our Directors are all members of the Association of Professional Trustees (APPT). In addition our internal control procedures are audited on an annual basis under AAF 02/07. As such we fully support the introduction of some form of regulation of those who hold themselves out as professional trustees.

Question 1: Should there be barriers to entry? Should all professional trustees be qualified/registered?

We believe this is the right approach. There is still some debate around what form the registration/qualification should take and we are generally supportive of the approach being taken by the APPT in introducing a qualification aimed at professional trustees which goes beyond merely testing pensions knowledge. Registration with a professional body is the established approach in many professions such as law, accountancy, etc. and we see the potential to take the same approach with trusteeship. In our view any qualification has to differentiate between professional trustees and lay trustees in order to establish credibility.

Questions 2 and 3: The Role of the Chair

We believe the role of the Chair is critical and that Chairs of Trustees should meet certain minimum standards, although they need not necessarily be professional trustees. We see no reason why the requirement for DC schemes to appoint a Chair and report on governance standards should not apply equally to DB schemes. The introduction of this requirement alone would be a first step to ensuring those who act as Chair have sufficient understanding of their role and duties etc. as they will be putting their name to a document which will be available for scrutiny by the members. In general we do not believe in barriers to entry for Chairs of trustees, there are a number of effective chairs who bring valuable experience from previous careers and a qualification requirement could risk excluding them. However, they should meet minimum standards over and above the basic TKU requirements of the trustee toolkit, and as a minimum should be subject to some form of CPD accreditation which could form part of the governance requirement in the annual report. Those who hold themselves out as professional trustees are expected to perform their role with a higher degree of skill and expertise than lay trustees. We see no reason why a lay trustee should have any lesser degree of accountability than a professional when acting in the role of Chair. In conclusion we support the introduction of minimum standards for all trustees who act as Chairs, but not necessarily a professional trustee qualification which we see as relevant for professional trustees.

Question 4, 5 6 and 7: TKU Framework and training generally

A report on TKU and training generally should form a standard part of the annual governance report signed by the Chair. We believe completion of the Toolkit or something similar within 6 months of appointment should be mandatory for all trustees. Thereafter all trustees should continue with ongoing training to be disclosed in the annual governance report. We do not believe a CPD framework for all trustees is necessary at this stage, other than for Chairs and professional trustees as discussed above. A proportionate approach would be needed when considering sanctions for failure to comply with these requirements. One alternative would be suspension or removal for those trustees who failed to undertake training. A softer approach might be escalation through encouragement and warnings etc. before taking more draconian steps. Any change of this nature would require overarching legislation, i.e. to override the member nominated trustee requirements, scheme rules etc.

Question 8: Further Training Tools

Generally we believe in the principle that training needs to be delivered in a variety of easily accessible formats to suit different topics/trustee requirements and preferences etc. We question whether it is the role of the Regulator to train trustees, as opposed to regulating and enforcing standards of trusteeship. Having said that we recognise the Toolkit as a valuable resource for all trustees and the important role the Regulator plays in helping drive up standards.

Question 9: Managing Conflicts

Firstly, identifying conflicts of interest requires training as many trustees and providers don't recognise that they are in fact conflicted. For example, the investment consultant recommending their own fiduciary management or master trust without independent tender process. The use of professional trustees should be encouraged for this purpose.

To reduce the likelihood of conflicts arising requires trustee boards to formally adopt the principle of independence in their governance framework, as a corollary to their obligation to act in members' best interests. Acting in members' best interests means the Board discharging its roles and responsibilities independent of the interests of dominant shareholders, management and competing or conflicting business interests

Question 10: Key Challenges

Governance framework design is critical. A requirement for a Statement of Governance Principles alongside the SIP could be considered covering issues such as tenure of trustees, training requirements, appointment of advisers, delegated authorities etc. It would assist trustees in demonstrating good governance rather than being another tick list. Chairs would then report against this in the annual governance statement.

Question 11: Ensuring Smaller Schemes meet Required Standards

The Regulator should establish a position that consolidation is a desirable and beneficial outcome for members, and then a road map as to how it might be achieved in an orderly way. If left to market forces there is a risk that members/employers will suffer disproportionate costs e.g. if a master trust provider fails.

What is needed is a more streamlined, less costly bulk transfer process for DC scheme trustees based on a long-term best interests test, rather than the current DB actuarial sign-off that is not fit for purpose.

Secondly, it requires corresponding clarity on competition policy and the role of NEST given that it is a state-subsidised competitor. Otherwise, providers (both trust and contract based) won't invest in the industry long term because profit margins are low and uncertain.

Question 12: Overarching Guidance

A principles based regulatory supervision system with guidance frameworks is desirable, as per the new DC Code, as long as it is very clear what is mandatory minimum and what is desirable/best practice. Trustees need to be given room to exercise judgement and proportionality.

Question 13: Standards of Trusteeship Generally

Generally we believe trustees should be more visible and accountable. Schemes above a certain size, and master trusts in particular, could be required to hold an AGM giving members the opportunity to question trustees. The Governance Statement referred to earlier could draw on some of the corporate governance standards for PLCs although these should not form part of a tick box approach. One alternative would be to mandate larger schemes and master trusts to undertake external board effectiveness reviews which would be available to members, this could sit alongside the current assurance reporting framework for master trusts.



ITS Limited
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