

## **Proposed Rules for Independent Governance Committees**

### **Response to CP14/16**

ITS is a firm of independent professional trustees. As such we believe the experience in acting as independent trustees means firms such as ours are ideally placed to fulfil the role of independent member of governance committees and welcome the opportunity to respond to this consultation

Our answers to the specific questions are as follows:

**1. We would welcome views on the likely equality and diversity impacts of the proposed rules**

Please see our response to question 11. Whilst we think there should be a minimum level of relevant experience required we believe that more needs to be done to encourage diversity and equality on IGCs. The requirement for an open and transparent appointment process is a first step but more needs to be done to ensure that a diverse range of candidates apply for these posts and that the firms appointing give proper regard to the need for a broad spectrum of skills and experience on the IGCs .

**2. Do you agree that deferred members of workplace personal pension schemes should be within the mandatory scope of the IGCs?**

Yes. Many deferred members with small pots lose track of their pensions and it is essential that IGCs have regard to the needs of these members.

**3. Do you agree that individual personal pensions, other than those that originated as workplace personal pensions, should not be the mandatory scope of IGCs?**

Yes

**4. Do you agree that individual personal pensions should not be in the mandatory scope of IGCs even where the employer contributed or facilitates payments?**

Yes

**5. Do you agree with our proposals for which firms will be required to establish and maintain an IGC?**

Yes

**6. Do you agree that IGCs may be established at a group level?**

Yes

- 7. Do you agree that an IGC must have a majority of members independent of the firm and that the IGC Chair must always be independent?**

We agree that the majority of members, including the Chair, should be independent. We anticipate that there may well be additional attendees from the firm who attend on a regular basis to present information etc.

- 8. Do you agree that an IGC should have at least five members?**

We agree that to have a meaningful exchange of idea and views a critical mass of members is required, however, we are not convinced that stipulating a specific number is helpful as it prohibits individual firms from arriving at the optimum solution for their particular circumstances. Whereas it is likely to be appropriate to have at least 5 in most cases, we could imagine circumstances where 3 or 4 would be sufficient. (By analogy with trust law it is common to find a diversity of approaches with trustee boards ranging in size from 3 upwards).

- 9. Do you agree with our proposed definition of independent that would allow trustees of a firm's Mastertrust to be independent IGC members?**

We see no difficulty with trustees of a firm's master trust sitting on the independent governance committee. Indeed we see positive advantages in ensuring consistency of approach across a firm's various offerings. Given that the ultimate objective of each body is to achieve good member outcomes by ensuring minimum governance standards are met, there is likely to be a considerable amount of overlap between the two bodies. Whilst the legal structure of trust and contract based arrangements are different, there are obvious efficiencies in using individuals on both bodies, and in merging certain functions where appropriate. We anticipate that many firms who provide both offerings may seek to combine their master trust boards and IGCs

- 10. Do you agree that we should not require firms to indemnify IGC members?**

We agree that this should be an individual commercial matter to be negotiated between the firm and the individual/corporate.

- 11. Do you agree that members of the IGC, including the IGC Chair, should not be approved persons at this time?**

We believe that restricting the pool of candidates to approved persons would be counterproductive as it would not achieve a balanced committee with persons outside of the financial services industry adding to the depth and range of experience on the board.

- 12. Do you agree that we should require firms to recruit independent IGC members through an open and transparent recruitment process?**

We support this proposal and note with some disappointment that a number of firms have already appointed their IGCs without going through any form of open or transparent process. There is a strong tendency for those

responsible for recruitment appointing persons of similar background and approach. We believe that the FCA needs to go further in encouraging diversity, and whilst we would not wish to see any form of quotas, either on grounds of sex, ethnicity or cultural/social background, we do believe that a more diverse committee is likely to achieve better outcomes for members.

**13. We would welcome views on the proposed duration of appointment of IGC members.**

We agree that two 5 year terms is sensible and that individual and corporate members should be allowed to re-stand after an absence of 5 years.

**14. Do you agree that we should permit the appointment of corporate persons to IGCs, including as the IGC Chair?**

Yes

**15. Do you agree that there should be no restriction on the duration of a corporate appointment?**

No, this suggestion fails to recognise that the appointment is of a corporate body, albeit represented by a named individual. As such the named individual will be consulting with his/her co-directors and the views expressed will be those of the corporate as well as those of the individual. It would therefore not be appropriate for a corporate trustee to get too close to a firm by continuing for more than two 5 year terms and the same restrictions that apply to individuals should apply to corporates.

**16. Do you agree that IGCs should consider in particular the value for money received by individuals enrolled in the default funds?**

Given the focus on the default option following auto enrolment, it is clear that value for money for the default fund should be a major focus. We recognise, however, that it may be quite a time-consuming role for IGCs, given the range of default strategies likely to be offered by any firm under the various GPPs it manages. Unlike a master trust where the range of funds on offer is likely to be limited, there will be considerable diversity between the strategies chosen by different employers for their default.

**17. Do you agree that, at a minimum, IGCs must assess whether the characteristics and net performance of all investment strategies are regularly reviewed by the firm?**

We agree that it should be primarily the duty for the firm to demonstrate to the IGC that the various strategies have delivered VFM, however (as referred to in 16. above) it will not be an easy role for the IGC to test this.

**18. Do you agree that, rather than mandating a particular approach, we should allow individual IGCs to determine how best to assess value for money?**

We believe this should develop over time with individual firms determining how best to assess VFM. Hopefully a common approach will emerge rather than being imposed. The danger of an industry imposed solution at the outset

is that it will require re-working over time and may not adapt sufficiently quickly to the needs of the IGCs and the members.

- 19. Do you agree that IGCs should be required, at a minimum, to review the three aspects of scheme quality proposed, and should consider other aspects as appropriate?**

Agreed. These should be the minimum but hopefully best practice would mean that remits extend to issues such as member communications.

- 20. Do you agree that IGCs should consider all costs and charges, as proposed? If not, what would you suggest?**

Agreed

- 21. We would welcome views on how best to improve the disclosure of all costs and charges, and how we could transpose the industry standards for authorised funds to pensions.**

- 22. Do you agree that IGCs should be able to escalate concerns directly to the FCA, alert relevant scheme members and employers, and make their concerns public?**

We support the ability of IGCs to make their concerns public and report to the FCA in the event of failure to take action by the firm, especially as they will lack any specific power to force the firm to respond to concerns raised.

- 23. Do you agree that the IGC Chair should be required to produce an annual report and that the firm should be required to make this report publicly available?**

Yes, the findings of the IGC should be open and transparent and available to customer through the annual report.

- 24. We would welcome views on where IGCs should focus their attention.**

- 25. Do you agree that we should place a duty on the firm to provide the IGC with all information that it reasonably requested for the purposes of carrying out its duties?**

Yes, particularly as the IGC has no power to enforce disclosure of relevant information.

- 26. Do you agree that we should place a duty on the firm to provide sufficient resources to the IGC as are reasonably necessary for it to carry out its duties?**

Agreed

- 27. We would welcome views on possible arrangements to ensure that member views are directly represented to the IGC.**

We agree that member representation to the IGC is crucial to ensuring it is effective and not seen as a remote body, inaccessible to members. We would suggest a variety of media to assist two way communications ranging from IGC specific website to potential AGMs

- 28. Do you agree that the firm should make the IGC's annual report and terms of reference publicly available?**

Yes

- 29. Do you agree that we should place a duty on the firm to address concerns raised by the IGC or explain to the IGC why it does not intend to do so?**

Yes

As stated above, in the absence of a statutory framework imposing duties on the firms to provide this information, it is essential that FCA can enforce compliance.

- 30. Do you agree that GAAs should be allowed as an alternative to the IGCs for firms with smaller and less complex workplace personal pension schemes?**

Yes

- 31. Do you agree with our proposals for the type of firms that can use GAAs?**

Yes

**Nita Tinn**

**Director, Independent Trustee Services Limited**

**October 2014**