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John Reynolds
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10 October 2014

Dear John

CP14/16: Proposed rules for independent governance committees

The Association of Professional Pension Trustees is an organisation of over 120 individuals who act as professional independent trustees to UK occupational schemes, some as sole practitioners and some working in firms of such practitioners. Our members represent a large number of mainly larger pension funds with combined assets of several hundred billion pounds.

Our aims are to:

- encourage and promote the highest professional standards in those who practise as professional pension trustees
- promote the role of professional trustees

APPT's response

Our response to this consultation is based on a survey of APPT's members.

Q1: We would welcome views on the likely equality and diversity impacts of the proposed rules.

We agree that there are no grounds for concern with to potential equality and diversity impacts of the proposed rules.

Q2: Do you agree that deferred members of workplace personal pension schemes should be within the mandatory scope of IGCs?

	No. responses
Yes	9
No	2

Comments included the following:

Fiduciary responsibilities should extend to all members, whether still active or no longer active.

Q3: Do you agree that individual personal pensions, other than those that originated as workplace personal pensions, should not be in the mandatory scope of IGCs?

	No. responses
Yes	10
No	1

Comments included the following:

Although the FCA needs to differentiate between those for the higher paid/high net worth and those for smaller pensions which may be affected by forthcoming changes to DC drawdown facilities.

Q4: Do you agree that individual personal pensions should not be in the mandatory scope of IGCs, even where the employer contributes or facilitates payments?

	No. responses
Yes	7
No	4

Q5: Do you agree with our proposals for which firms will be required to establish and maintain an IGC?

	No. responses
Yes	11
No	0

Q6: Do you agree that IGCs may be established at a group level?

	No. responses
Yes	11
No	0

Q7: 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?

	No. responses
Yes	11
No	0

Q8: Do you agree that an IGC should have at least five members?

	No. responses
Yes	9
No	3

Comments included the following:

Would prefer to see membership numbers linked to size of scheme.

Q9: Do you agree with our proposed definition of independence that would allow trustees of a firm's mastertrust to be independent IGC members?

	No. responses
Yes	10
No	1

Comments included the following:

The use of "independence" is already quite overstretched. I would prefer to see "professional" used, with legal consequences and raised expectations of negligence and underperformance.

Q10: Do you agree that we should not require firms to indemnify IGC members?

	No. responses
Yes	7
No	4

Comments included the following:

Creates more problems than it remedies. Who would take an appointment without indemnity but people who don't understand what they are getting into.

Should be a matter of choice

But expect the insurance markets to offer alternative forms of mitigation "to protect members" but at cost to those same members.

Q11: Do you agree that members of the IGC, including the IGC Chair, should not be approved persons at this time?

	No. responses
Yes	10
No	1

Comments included the following:

Start from a position of excellence. Difficult to move from non-approved to approved in a regime that is up and running

Q12: Do you agree that we should require firms to recruit independent IGC members through an open and transparent recruitment process?

	No. responses
Yes	8
No	3

Comments included the following:

As long as the appointee fulfils the definition of independent that should be sufficient

Q13: We would welcome views on the proposed duration of appointment of IGC members.

	No. responses
Less than three years	1
Three to five years	9
Over five years	1

Comments included the following:

If three years, then the IGC member could be reappointed once so the total term served would be a maximum of 6 years and then there should be mandatory retirement and replacement.

Notice periods should, however, be very short, one month at the most.

Q14: Do you agree that we should permit the appointment of corporate persons to IGCs, including as the IGC Chair?

	No responses
Yes	9
No	2

Q15: Do you agree that there should be no restriction on the duration of a corporate appointment?

	No. responses
Yes	6
No	5

Comments included the following:

But only as long as the actual individual representing the corporate changes. What would be weak would be for Ms X, of ABC Trustees, sitting on the IGC for more than 6 years because that cuts across the needs for change. It could work like Audit engagements when after 7 years there is a mandatory change of audit partner, but the Audit firm does not change.

There should be a review period. It should be possible to re-appoint but only after a transparent review/tender process

Q16: Do you agree that IGCs should consider in particular the value for money received by individuals enrolled in default funds?

	No. responses
Yes	11
No	0

Q17: 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?

	No. responses
Yes	11
No	0

Q18: Do you agree that, rather than mandating a particular approach, we should allow individual IGCs to determine how best to assess value for money?

	No. responses
Yes	9
No	2

Comments included the following:

At the very least there should be some indicators of what is acceptable

need a consistent approach which is comparable between different schemes

Q19: 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?

	No. responses
Yes	10
No	1

Comments included the following:

member communications should be added to the list of minimum aspects of quality

Q20: Do you agree that IGCs should consider all costs and charges, as proposed? If not, what would you suggest?

	No. responses
Yes	10
No	1

Comments included the following:

Just direct charges

But also costs relative to expected and actual net returns.

Q21: 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.

	No. responses
By requiring charges to be expressed as a Total Expense Ratio	6
By providing worked examples of how transaction costs are calculated	3
By providing examples of the effects of charges on a fund of a given value	9
Direct charges only	1

Q22: 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?

	No. responses
Yes	11
No	0

Comments included the following:

But only the ability to escalate direct to the FCA. alerting members and/or making concerns public should be at the direction of the FCA not the IGC.

Not so sure about "made public", but we live in an age of whistleblowers.

Q23: 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?

	No. responses
Yes	9
No	2

Comments included the following:

The example of annual reports and accounts in the DB world demonstrates that it would be a waste of time and effort. Other forms of communicating results and newsworthy matters to the member should be adopted.

Not to be made public.

Q24: We would welcome views on where IGCs should focus their attention.

We asked: 'What issues should IGCs address?'

	No. responses
Charging structures for older schemes	10
Higher charges borne by deferred members as a result of Active Member Discounts (AMDs)	10
Compliance with statutory charging caps	10
Value for money	10

Comments included the following:

IGC costs and their own value-for-money, contribution to net performance.

Q25: Do you agree that we should place a duty on the firm to provide the IGC with all information that it reasonably requests for the purposes of carrying out its duties?

	No. responses
Yes	11
No	0

Comments included the following:

Critically important

Q26: 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?

	No. responses
Yes	11
No	0

Comments included the following:

Again this is very important

Q27: We would welcome views on possible arrangements to ensure that member views are directly represented to the IGC.

We asked 'How might members be effectively represented on IGCs?'

Comments included the following:

Similar to the member-nominated process for DB schemes

A diverse membership of the IGC where the membership is relevant to the membership

Actively invite them to apply; holding one place for a member representative. Why would members be required to be on the IGC - surely the most cost effective way would be to have an over-arching requirement that the IGC puts the interests of all the members above any other?

I don't think it is sensible to involve individuals. Trade unions where appropriate might be worthwhile but there is a danger of seriously over egging the pudding

the requirement is that members' VIEWS are represented. Online surveys Written invitation for comments on the annual report

By nomination and election, rather than selection. Terms of office three to five years, but removal for nonattendance and other performance issues.

Agm / annual policy holder forums

Q28: Do you agree that the firm should make the IGC's annual report and terms of reference publicly available?

	No. responses
Yes	8
No	2

Comments included the following:

If you have one yes - no point to it otherwise

Except on request, including requests from members' representatives.

Q29: 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?

	No. responses
Yes	10
No	0

Comments included the following:

Comply or explain

Q30: Do you agree that GAAs should be allowed as an alternative to IGCs for firms with smaller and less complex workplace personal pension schemes?

	No. responses
Yes	8
No	2

Comments included the following:

It is not clear what the fundamental difference is between the two. Why should smaller, or less complex, arrangements have a lower level of governance - the members need the same degree of protection.

Q31: Do you agree with our proposals for the types of firm that can use GAAs?

	No. responses
Yes	7
No	3

Comments included the following:

there needs to be a clear threshold for use of a GAA

Yours sincerely,



Nita Tinn
Association of Professional Pension Trustees