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New Requirements for Statement of Investment Principles, Annual Reports and Disclosures

New regulations laid before Parliament on 6 June 2019 place a new requirement on defined benefit (DB) pension schemes to publish their Statement of Investment Principles (SIPs) on a public website by 1 October 2020.

Additionally, the regulations introduce new requirements from 1 October 2020 in the SIPs of both defined contribution (DC) and DB pension schemes for policies in relation to the trustees' arrangement with any asset managers covering a number of matters, plus make changes to the stewardship policy wordings.

Finally, the regulations introduce new requirements affecting the investment report section of the scheme's annual report. The report must contain a statement on the trustees' compliance with their stewardship policy and their voting behaviour. DC schemes will already have to publish an implementation statement from 1 October 2020, and by 1 October 2021, DB schemes will have to publish their engagement policy implementation statement.

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Background

One consequence of the delay to Brexit is that an EU Directive (the Shareholders' Rights Directive – commonly known as SRD II) must be transposed into UK law on 10 June 2019. These new regulations implement SRD II's provisions concerning schemes' investment principles and disclosure of information by way of amendments to the Investment Regulations 2005 and the Disclosure of Information Regulations 2013.

SRD II encourages investors to adopt a more long-term focus in their investment strategies, not only considering social and environmental issues, but also being transparent about how they invest and approach their engagement as shareholders.

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The DWP, in its explanatory note about the new regulations, explains that “UK trustees of occupational pension schemes have an important role to play in the oversight of the companies in which they invest and to whom they lend”. Regulations already coming into force on 1 October 2019 require trustees to include policies in relation to the stewardship of investments and the DWP says that there is a “clear link between, and consistency with, the aim of those changes and that of the SRD II requirements”.

New policies for SIPs

In addition to the current policies (including the changes from October 2019 affecting policies on financially material considerations, non-financial matters and, for schemes with more than 100 members, stewardship) that trustees must include in their SIP, new policies are being introduced for both DC and DB pension schemes. The change applies to schemes with more than 100 members and trustees have until 1 October 2020 to prepare the policies.

Trustees must explain their policies in relation to:

- how they monitor the investee company on capital structure;
- how targeted portfolio turnover or turnover range is to be defined and monitored;
- how they manage actual and potential conflicts of interest in relation to their engagement;
- details of their arrangements with their asset managers; the duration of the arrangement, how the scheme incentivises the asset manager to align investment strategies and decisions, and how they monitor portfolio turnover costs incurred by the asset manager.

New requirements for annual reports

On top of the changes from October 2019 (as above) that have to be covered in the investment report section of the scheme’s annual report, from 1 October 2020 trustees will have to include details of their policy on asset manager arrangements and a statement setting out how and the extent to which their policy on stewardship of scheme investments has been followed and information on their voting behaviour (an engagement policy implementation statement).

Trustees of relevant DC schemes (that are required to produce a Chair’s statement) already know they have to produce an implementation statement in their annual reports prepared on or after 1 October 2020 detailing how the SIP has been followed and any review of, and changes, to the SIP. The new regulations now require this statement to provide information on the trustees voting behaviour.

Publishing SIPs and implementation statements online

Trustees of relevant DC schemes must publish their SIP on a website so that it can be found and read by both scheme members and interested members of the general public. This must be published by 1 October 2019. From 1 October 2020 trustees must also publish the implementation statement from the most recent annual report on the website.

These new regulations require trustees of DB schemes to also publish their SIP online by 1 October 2020. By 1 October 2021 trustees will be required to publish the statement (the engagement policy implementation statement for DB schemes) explaining, amongst other things, how they have cast their votes in the general meetings of companies in which they hold shares.

Next steps

All schemes

1 October 2019:

- Ensure the SIP includes policies on financially material considerations, non-financial matters and, where the scheme has 100 or more members, stewardship.
- Ensure these matters are covered in the scheme's investment report section of the annual report prepared on or after 1 October 2019.

1 October 2020:

- Update the SIP to include a policy in relation to the arrangements with asset managers and update the stewardship policy (following the expansion in the range of engagement activities).
- Ensure these matters are covered in the scheme's investment report section of the annual report prepared on or after 1 October 2020.

DB schemes (in addition to the above)

1 October 2020:

- Make publicly available free of charge on a website, the scheme's SIP.
- Include an engagement policy implementation statement in the investment report section of the scheme's annual report (prepared on or after 1 October 2020) detailing: how and the extent to which the trustees' policy on stewardship of scheme investments has been followed and information on the voting behaviour of the trustees during the scheme year.

1 October 2021:

- Publish the engagement policy implementation statement on the website.

DC schemes (in addition to the above)

1 October 2019:

- Ensure the SIP for the default arrangement includes policies on financially material considerations, non-financial matters and, where the scheme has 100 or more members, stewardship.
- Make publicly available free of charge on a website, the scheme's SIP (and inform members of this via the annual benefit statement).

1 October 2020:

- If the scheme has 100 or more members, update the SIP to include a policy in relation to the arrangements with asset managers and update the stewardship policy (following the expansion in the range of engagement activities).
- Include an implementation statement in the investment report section of the scheme's annual report (prepared on or after 1 October 2020) detailing: how, and the extent to which, the scheme's SIP has been followed in the scheme year, any review of, and any changes to, the SIP and, if no review has taken place, the date of the last review, and how and the extent to which the trustees' policy on stewardship of scheme investments has been followed and information on the voting behaviour of the trustees during the scheme year.
- Publish the implementation statement on the website immediately the annual report is prepared.

1 October 2021:

- Ensure the implementation statement that is published provides information on the voting behaviour carried out by, or on behalf of, the trustees during the scheme year.

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