

FYI[®] Alert

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Updated guidance for DC trust-based pension schemes

The Pensions Regulator has issued a [press release](#) advising that it has updated its guidance to help trustees of pension schemes that are subject to the requirements for:

- a DC chair's statement; and/or
- a statement of investment principles for the default arrangements (known as a default SIP)

meet the changes that affect both of these from 1 October 2023.

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Background

These new requirements were introduced via regulations earlier this year and there is also [statutory guidance](#) covering these. Our FYI dated 14 February 2023 ([Measures to boost illiquid asset investment by DC pension schemes](#)) provides details of the requirements.

Policy on illiquid investments in the default SIP

For any new or revised SIP covering the default arrangements that is produced after 1 October 2023, the trustees must include their policy on illiquid assets. There is a deadline of 1 October 2024 for this which means all default SIPs must be updated by this date. (NB a default SIP is required for most pension schemes with more than one member. It's usual for a scheme with both DB and DC members to have one SIP covering everything.)

If the policy is for a default arrangement to NOT invest in illiquid assets, the default SIP must explain why, and whether there are any plans to invest in illiquid assets in the future.

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If the policy is for a default arrangement to invest in illiquid assets, the default SIP must for that default arrangement:

- Describe the age profile of the members for whom investments will be held in illiquid assets.
- Explain whether the investments made in illiquid assets will be made directly in illiquid assets or via a collective investment scheme.
- Explain the types of illiquid investments that will be held.
- Explain why the policy is to invest in illiquid assets – including the advantages over other classes of assets.
- Explain whether there are any plans to increase their investment in illiquid assets in the future.

Include the allocation of assets in the chair’s statement

For the next annual chair’s statement produced for the first scheme year ending after 1 October 2023, the trustees must include the percentage of scheme assets allocated to each asset class in relation to each default arrangement.

The guidance that has been updated is:

- the [DC code of practice](#) (i.e. Code 13: Governance and administration of occupational trust-based schemes providing money purchase benefits) – particularly the sections on investment governance and communicating and reporting
- the [DC investment governance detailed guidance](#) (which sits alongside the DC code) – the sections on investment decisions and the SIP plus market developments
- the [Communicating and reporting detailed guidance](#) (which also sits alongside the DC code) – the reporting section (covering the chair’s statement) including the [quick guide](#) and the [technical appendix](#)

Action for trustees

Trustees should review the current structure of their default arrangement(s) and determine their future policy on illiquid investments (including any training needs) with the support of their investment advisers in order that a new SIP can be prepared after 1 October 2023.

Trustees should also review with their advisers the asset allocation of their default fund(s) in order to prepare for these new disclosure requirements.

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