

Further changes to SIPs and investment disclosure

Alert | 12 June 2019



Introduction

The [Shareholders Rights Directive](#) (“SRDII”) had to be transposed into UK law by 10 June 2019.

On 6 June 2019, the Government published [the Occupational Pension Schemes \(Investment and Disclosure\) \(Amendment\) Regulations](#) (“the Regulations”). The Regulations, which generally come into force on 30 September 2019, are intended to implement the aspects of SRDII which relate to workplace pension scheme stewardship and governance.

Key points

- The Regulations significantly expand the requirements for Statements of Investment Principles (“SIPs”), to address stewardship in more detail and revise trustees’ investment disclosure obligations. SIPs will have to be updated before 1 October 2020.
- In particular, trustees are required to explain how they incentivise their appointed investment managers to align investment strategy with the trustees’ policies and to make investment decisions based on long-term performance.
- All trustees will be required to produce an annual disclosure on their engagement and voting practices from 1 October 2020.
- DB schemes will have to publish SIPs and annual engagement and voting reports on a publicly available website. This mirrors the public reporting requirements for DC schemes that apply from October 2019.

Background

Stewardship is the responsible allocation and oversight of investments by pension schemes, asset managers and insurers, to create sustainable value for beneficiaries and promote the long-term success of companies, the economy and society.

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

The Government believes that occupational pension scheme trustees have an important role to play in the oversight of the companies in which they invest (or to whom they lend), and that they should fulfil the responsibilities associated with holding the investments in members' best interests through the full range of stewardship activities.

[New FCA requirements](#), which came into force on 10 June 2019, will require asset managers to disclose and make publicly available their policies on how they engage with each other and the companies they invest in, and how their strategies create long-term value. These rules are intended to improve shareholder engagement and increase transparency around stewardship.

Recap on previous changes to SIPs

A SIP is a written statement which sets out the trustees' investment policy for the pension scheme.

Since the publication of the amended investment [regulations](#) in September 2018 (the “**2018 Regulations**”), trustees have been preparing for a number of changes to the contents of their SIPs, required by 1 October 2019. See our [Alert](#) for details.

Before 1 October 2019, trustees must update or prepare their SIP to set out their policies in relation to:

- “financially material considerations” (including ESG considerations) over the “appropriate time horizon” of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments
- the extent (if at all) to which “non-financial matters” are taken into account in the selection, retention and realisation of investments
- undertaking engagement activities in respect of investments (stewardship).

In addition, DC schemes are subject to further reporting and disclosure requirements (see below).

Exceptions

- Schemes with fewer than 100 members and certain local authority and public sector schemes are not required to prepare a SIP.

New SIP requirements

Under the latest Regulations, further detail will be required in SIPs.

By 1 October 2020

Broadly, trustees will be required to:

- provide additional information in their stewardship policy, for example how they monitor the investee company on capital structure and how they manage actual and potential conflicts of interest in relation to their engagement
- set out their policy in relation to their arrangements with their asset managers. This policy must set out the following matters, or explain the reasons as to why the following matters are not set out:

- how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustees' investment policies
- how that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term
- how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' investment policies
- how the trustees monitor "portfolio turnover costs" incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range
- the duration of the arrangement with the asset manager.

For the purposes of this requirement:

- "portfolio turnover costs" means the costs incurred as a result of the buying, selling, lending or borrowing of investments
- "targeted portfolio turnover" means the frequency within which the assets of the scheme are expected to be bought or sold
- "turnover range" means the minimum and maximum frequency within which the assets of the scheme are expected to be bought or sold.

New annual reporting requirements

Under the 2018 Regulations, DC trustees are required to produce and publish an implementation report from 1 October 2020 (setting out how they acted on the principles in the SIP). These changes were introduced in September 2018, see our [Alert](#) for details.

Under the latest Regulations, a similar requirement to publish an annual implementation statement will apply to DB schemes (although it is slightly narrower in scope than the DC requirement). Additionally, the Regulations will extend the contents of the implementation report for DC schemes to include a description of trustees' voting behaviour (as set out below for DB trustees).

from 1 October 2020

DB trustees must produce a statement which:

- explains how and the extent to which they have followed their engagement policy
- describes the voting behaviour by and on behalf of the trustees, including the most significant votes cast by trustees or on their behalf.

The fact that DB trustees will need to consider how they have implemented certain aspects of their SIP on an annual basis is a significant development.

New public disclosure requirements

Under the 2018 Regulations, DC trustees are required to publish their SIPs online from 1 October 2019 and their annual implementation report (setting out how they acted on the principles set out in their SIP) from 1 October 2020.

Under the latest Regulations, a similar requirement to publish materials online will apply to DB schemes.

By 1 October 2020

DB trustees must publish their SIP on a publicly available, free to access website.

By 1 October 2021

DB trustees must produce and publish, on a publicly available, free to access website, their annual report on voting and engagement (see above).

Next steps

Although trustees will currently be focused on ensuring their SIPs are compliant with the requirements of the 2018 Regulations before 1 October 2019, these latest changes may inform how they do so and the timetable for further review.

We recommend trustees begin preparations in relation to the above requirements sooner rather than later. The first deadline of 1 October 2020 may seem relatively far in the future, but obtaining and assimilating the necessary information from investment managers will require a lot of work.

If you have any questions on any of the above, **please speak to your usual Sackers contact.**