

## TPR publishes response on the future of trusteeship and governance

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### Introduction

On 10 February 2020, TPR published its [response to its consultation on the future of trusteeship and governance](#). Most notably, TPR will not require pension scheme boards to engage a professional trustee. Instead, it will support the APPT's standards and the upcoming industry accreditation framework for professional trustees.

### Key points

- TPR intends to update its TKU code of practice and to review the Trustee toolkit to make its expectations clearer, and to drive up standards of trusteeship.
- On diversity, TPR will establish and lead an industry working group to find ways of supporting schemes with making improvements to trustee diversity.
- There will be no change to the governance standards for sole trustees, but TPR supports the APPT's intention to develop an industry code for sole trusteeship.
- TPR will continue to monitor DC consolidation activity, working with both industry and the DWP to find solutions to overcome barriers to consolidation.

### Background

TPR wants “to ensure all savers participate in well-run schemes, with the right governance structures in place to support effective decision-making”. Its [consultation on the future of trusteeship and governance](#) set out its aspirations for:

- further reforming the standards of trusteeship and governance
- ensuring these standards continue to be appropriate for addressing current risks and
- protecting the interests of savers in the future.

The calls for evidence and proposals fell into three key areas:

- **TKU:** TPR looked at how it could ensure those managing schemes have the right knowledge and understanding and appropriate skills, and that these are kept up-to-date
- **Scheme governance structures for effective decision-making:** TPR looked at how boards could become more diverse, inclusive and be able to demonstrate that they have the right mix of skills, knowledge and understanding for running the scheme. In particular, it considered requiring an accredited professional trustee on every board
- **Driving DC scheme consolidation:** Where schemes are unable to meet the standards of trusteeship and governance, they will need to improve, face enforcement action, or be actively encouraged to wind up. As such, TPR sought ideas on how to remove barriers to DC consolidation and ensure more savers have access to well-run schemes.

## TKU

### Content and level of TKU

TPR notes that the nature of what trustees need to know and understand has changed since TKU was first introduced 15 years ago. Therefore, it intends to review and update its Code of Practice so that its “expectations for the content and level of TKU that trustees need to attain, including those for professional trustees and board members of public service schemes, remain appropriate for safeguarding the interests of savers”. It will also seek to simplify how it presents its expectations, differentiating by the type of trustee, as well as the type of scheme (DB, DC and public service).

Once the new standards are in place, TPR plans to run a [regulatory initiative](#) to test levels of TKU, and to consider appropriate action where they fall below expectations.

### Demonstrating TKU and ongoing learning

Rather than requiring certain qualifications or training, TPR will set out a range of acceptable methods for demonstrating TKU. For example, completion of the Trustee toolkit, relevant work experience and, for professional trustees, industry accreditation. TPR considers that allowing for a range of options should help reduce barriers for participating in trusteeship and support board diversity.

TPR will consider whether to set expectations on what it thinks is appropriate for ongoing learning, including indicating the number of hours and types of activities that would count. It comments that 15 hours per year for ongoing learning would be reasonable “as an indicative baseline...for lay trustees”. In contrast, professional trustees will be expected to follow the industry-based standards for ongoing learning (currently set at 25 hours per year).

## Scheme governance structures

As well as creating an industry working group to help pension schemes, and employers, improve the diversity of scheme boards, TPR will provide additional guidance to “push the industry in the right direction”. It does not currently intend to pursue a requirement for schemes to report on the steps they are taking to increase diversity, but may return to this idea if evidence suggests a firmer approach is needed.

With regards to professional trustees, TPR hopes that the APPT standards will help to bring greater consistency in quality and, in turn, provide increased confidence that accredited trustees meet TPR’s expectations. While it does not currently propose introducing a requirement for every scheme to have a

professional trustee, TPR may revisit this once it has assessed the impact of the APPT standards on scheme governance and trusteeship.

Similarly, while TPR intends to continue to “keenly scrutinise” schemes that use sole trustees, it does not currently intend to take action. Nonetheless, it welcomes and supports the APPT’s development of an industry code for sole trusteeship.

Employers will be reminded of their duty to provide employees with paid time off for time performing their trustee duties, including training. TPR also plans to address other issues where employers can have a positive impact on the performance of the pension scheme, such as trustee recruitment.

## Driving DC scheme consolidation

TPR’s response makes clear that it will not take a “blanket approach” to consolidation. “If a scheme is well-run and can demonstrate it is offering value for members”, TPR will not push the trustees to consider consolidation.

In the short term, TPR will not provide guidance on winding up for schemes with guarantees, as the relevant issues are likely to be addressed in forthcoming statutory guidance from the DWP. This guidance will support regulations aimed at encouraging further consolidation, following the DWP’s consultation on “investment innovation and future consolidation” (see [7days](#)).

## Next steps

TPR’s new single web-based code (which is now expected to be published for consultation during the first half of this year) will form the foundation for its TKU project. But, it hopes to consult specifically on revisions to TKU in the early part of 2021.

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