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Updating your SIP: new content requirements and disclosure deadlines for pension schemes

Many occupational pension schemes are currently updating their statement of investment principles (SIP) to meet new content requirements. From 1 October 2019, the SIP must set out trustees' policies on taking financially material considerations (broadly, environmental, social and governance issues) into account in investment decisions; any policy on non-financial (e.g. ethical) considerations, and their policy on stewardship matters.

New regulations extend the content requirements to cover arrangements with asset managers. The deadline for including the additional material is 1 October 2020, but schemes may wish to comply early to avoid repeating the process of updating and consulting on the SIP next year.

In addition, DB schemes with 100 or more members will be required to publish their SIP from October 2020 and publish an implementation statement online from October 2021.

This guide provides a checklist of content requirements and deadlines for the SIP, and explains what content must then be disclosed online.

New requirements to disclose information about arrangements with asset managers

As set out above, from 1 October 2019, trustees of both DB and DC schemes with 100 or more members must ensure that the scheme's SIP sets out certain investment policies relating to environmental, social and governance issues and stewardship matters.

Further content requirements are set out in new regulations; these relate to trustees' arrangements with asset managers, including how those arrangements promote alignment with the scheme's investment strategy, and information about remuneration and monitoring of asset managers. The underlying trigger for the changes is the government's implementation of the revised Shareholder Rights Directive; trustees have a further year (until 1 October 2020) to ensure that the SIP includes these additional elements.

Before updating a SIP, trustees must:

- obtain and consider the written advice of a person who is reasonably believed by the trustees to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes; and
- consult the employer.

Some schemes may wish to include the additional information, if possible, in the current SIP revision rather than carrying out a second process within the next 12 months.

Alongside the amended SIP content, additional information must be published on a website and in the annual report. For the first time, these online publication requirements will apply to some DB schemes. Relevant DC schemes with 100 or more members will also need to include additional matters in their implementation statement.

What content must be included in a SIP?

	Content requirement	Deadline for inclusion
A	The trustees' policy for selection/retention of investments and ensuring continued suitability (based on proper advice, obtained in writing)	Already in place
B	The trustees' policies in relation to: <ul style="list-style-type: none"> i) the kinds of investments to be held; ii) the balance between different kinds of investments; iii) risks, including the ways in which risks are to be measured and managed; iv) the expected return on investments; v) the realisation of investments; vi) financially material 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; and vii) the extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments 	(i) to (v): already in place (vi) and (vii) must be included from 1 October 2019 (replacing the requirement to state the policy in relation to 'the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments'). See definitions section below
C	The trustees' policy in relation to: <ul style="list-style-type: none"> i) the exercise of the rights (including voting rights) attaching to the investments; and ii) undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters) 	Applies from 1 October 2019, but note that the definitions of relevant persons and relevant matters have been extended; the deadline for preparing policies covering the extended requirements is 1 October 2020. See definitions section below
D	The trustees' policy in relation to their arrangement with any asset manager, setting out the following matters or explaining the reasons why any of the following matters are not set out: <ul style="list-style-type: none"> i) how the arrangement incentivises the asset manager to align its investment strategy and decisions with the trustees' policies mentioned in B; ii) how the 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; iii) 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' policies mentioned in B; iv) how the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range; and v) the duration of the arrangement with the asset manager 	First policies must be in place from 1 October 2020 (but schemes can comply earlier if appropriate). See definitions section below

Additional requirements for default arrangements

Trustees of relevant DC schemes¹ must comply with additional requirements in relation to default arrangements. Note that the recently announced changes only affect schemes with 100 or more members.

Content requirement	Deadline for inclusion
1. Their aims and objectives in respect of such investments	Already in place
2. Their policies in relation to the matters mentioned in B AND if the scheme has 100 or more members, C and D above	B(i) to (v): already in place; B(vi) and (vii) must be included from 1 October 2019 (see above) Schemes with 100 or more members must include policies relating to C (stewardship and engagement issues) from 1 October 2019. By 1 October 2020, these policies must cover additional matters (see above) The first policies relating to D (asset manager arrangements) must be in place by 1 October 2020
3. An explanation of how aims and objectives (row 1) plus policies in row 2 (“the default strategy”) are intended to ensure investment in best interests of members/beneficiaries	Already in place

Making information available – what information and when?

Annual reports

The content requirements for scheme annual reports vary depending on the type of scheme. In addition to changes from 1 October 2019 (described on the next page), further requirements will apply from 1 October 2020. Relevant DC schemes will already be aware of the changes, but the latest regulations also affect annual report requirements for DB schemes with 100 or more members.

DB and DC schemes with 100+ members	The annual report must include a statement that: <ul style="list-style-type: none"> – sets out how, and the extent to which the policy required under C above (engagement/stewardship issues) has been followed during the year – describes the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and states any use of the services of a proxy voter during that year
Relevant DC schemes ² with 100+ members	The statement in the annual report must also cover: <ul style="list-style-type: none"> – how, and the extent to which the SIP has been followed during the year – any review of the SIP undertaken or changes made to the SIP during the year and the reason for any change, and the date of the previous review if there was no review during the year – the voting behaviour by, or on behalf of, trustees (including the most significant votes cast) during the year and states any use of the services of a proxy voter during that year

¹ ‘Relevant DC schemes’ means, broadly, DC schemes with more than 12 members but excluding AVC-only arrangements and public service schemes.

² DC schemes which are excluded from the definition of ‘relevant DC schemes’, such as AVC-only schemes, could fall within this category if they have more than 100 members.

The annual report for both categories of schemes listed above must also include the trustees' policies on taking financially material considerations into account in investment decision-making, and any policy on non-financial considerations (B(vi) and (vii) in the first table above), as well as their stewardship and engagement policies (row C in the table above) – this applies for annual reports from 1 October 2019 (with extended definitions from 1 October 2020).

A further requirement, to include the policy in relation to arrangements with the asset manager (row D in the table above), must be met by 1 October 2020.

Implementation statements

In addition, schemes must make certain information available on a website in an implementation statement, and some of these requirements will now apply to DB as well as DC schemes.

- **DB schemes with more than 100 members** (and potentially some DC arrangements) must publish an implementation statement setting out the information summarised below, as per the most recent scheme accounts, by 1 October 2021.
- **Most relevant DC schemes** will have extended implementation statement requirements. The current statement, published alongside the Chair's statement for scheme years ending on/after 6 April 2018, must set out costs/charges information, an explanation of trustees' assessment of value for members and an illustrative example of cumulative effect of charges etc. For **relevant DC schemes with 100 or more members**, from 1 October 2020 the implementation statement must include the information summarised below, as per the most recent set of scheme accounts³.

Summary

	Schemes that are required to produce a SIP (except relevant DC schemes)	Relevant DC schemes that are required to produce a SIP
SIP content requirement	SIP must include policies covering matters in B(vi), B(vii) and C above by 1 October 2019; plus D (and extended elements of C) by 1 October 2020	SIP and default SIP must include matters in B(vi), B(vii) and C above by 1 October 2019; plus D (and extended elements of C) by 1 October 2020
SIP publication deadline	Publish the latest SIP on a website by 1 October 2020	Publish SIP and default SIP on a website by 1 October 2019
Implementation statement requirements	State how the policy on engagement/stewardship issues has been followed during the year; and describe voting behaviour by, or on behalf of, trustees (including proxy votes), as per the most recent scheme accounts Deadline: 1 October 2021	State how the SIP has been followed during the year and describe any review, reason for any changes etc; and describe voting behaviour by, or on behalf of, trustees (including proxy votes), as per the most recent scheme accounts Deadline: 1 October 2020 (but see footnote below)

Implementation statements must be made publicly available free of charge online (or, where appropriate, in hard copy form), and details of the availability of this information must be included in the annual benefit statement.

³ Except that for information relating to voting behaviour/proxy votes and the extended definitions of 'relevant persons' and 'relevant matters' (see C in the first table above), the implementation statement deadline is 1 October 2021.

Comment

The latest changes are part of a package of measures introduced as the UK's implementation of the revised Shareholder Rights Directive, and are intended to promote transparency and longer-term shareholder engagement between investors and investee companies. Coupled with recent changes to increase transparency and focus on the role of environmental, social and governance factors in investment decisions, the combined impact on scheme SIPs will be significant.

We expect the Regulator to update its investment guidance for both DC and DB arrangements very shortly, and this may include additional details about the Regulator's expectations in terms of scheme policies and disclosure. We also expect the Financial Reporting Council to announce the final version of the new Stewardship Code shortly. Schemes should be gathering relevant information now for changes that they need or wish to make to their SIP by 1 October 2019.

Definitions

Appropriate time horizon means the length of time that the trustees consider is needed for the funding of future benefits by the investments of the scheme

Financially material considerations includes (but is not limited to) environmental, social and governance considerations (including but not limited to climate change), which the trustees consider financially material

Non-financial matters means the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries

Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments

Relevant matters includes (but is not limited to) matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance*

Relevant persons includes (but is not limited to) an issuer of debt or equity, an investment manager, another stakeholder or another holder of debt or equity*

Stakeholder means a person or a group of persons who has an interest in the issuer of debt or equity

Targeted portfolio turnover means the frequency within which the assets of the scheme are expected to be bought or sold

Time horizon means the time period over which the trustees evaluate the performance of the asset manager

Turnover range means the minimum and maximum frequency within which the assets of the scheme are expected to be bought or sold

* The deadline for the SIP to include trustee policies relating to the underlined text is 1 October 2020.

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