

## A quick guide to preparing for the Chair's Statement

The trustee boards of many schemes providing DC benefits<sup>1</sup> must prepare an annual Chair's Statement within seven months of the end of the scheme year. To meet this requirement, you need to have processes in place throughout the year to gather supporting evidence. This guide sets out the information to be included in the Chair's Statement and suggested actions for gathering evidence.

### Laying the groundwork

The Chair's Statement covers four specific areas: governance of the default arrangement; the processing of core financial transactions; charges and transaction costs (including value for members); and trustee knowledge and understanding. The various requirements present differing challenges and will require you to work with a range of advisers and providers. Experience has shown that it takes time to gather complete and accurate details of charges and transaction costs. Many schemes find the assessment of value for members to be the most challenging part, and your approach to this needs to be planned carefully in advance. You will need to design and implement an appropriate scheme-specific process, which could involve obtaining member feedback and considering comparator information.

### What level of detail?

The Chair's Statement should provide a 'meaningful narrative' in plain English of how, and the extent to which, the governance standards have been met; what measures you took to achieve compliance; and how you reached your conclusions on the extent of compliance. It can be difficult to strike a balance between expressing the level of detail expected by the Pensions Regulator (TPR) and keeping the statement to an appropriate length (that is, proportionate to members' level of interest, and not out of balance with the rest of the annual report).

For example, for the value for members assessment, TPR expects you to report on your preparations; the process you followed and factors you considered; the outcomes from the assessment, including the reasons for your conclusions; and any planned actions to improve areas that do not represent good value, or reasons why no improvement is possible. Although you may prefer brevity, a short, high-level Chair's Statement could lead to an automatic penalty notice by TPR, on the grounds that it does not contain all of the required information. You can read more about these issues in the 'Compliance' section later in this guide, and in our publication '[Producing the Chair's statement: what can go wrong](#)'.

The table on the following pages of the guide contains a summary of the core requirements, together with suggested preparatory actions, so that you have all the necessary information to draft your Chair's Statement when the time comes.

*'You should take steps ... well in advance of your annual report ... so that you are able to produce the chair's statement when the time comes.'*

TPR, Communicating and Reporting guide

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<sup>1</sup> Certain schemes are excluded from the Chair's Statement requirement – for example, schemes that offer no DC arrangements other than AVCs, small schemes (with up to 12 members who are all trustees) and executive pension schemes. This guide does not cover 'relevant multi-employer schemes' (master trusts), which are subject to additional content requirements for the Chair's Statement.

Required content	Explanation and recommended actions
<b>Governance of the default arrangement</b>	
<p><b>The latest statement of investment principles (SIP) governing decisions about investments in the default arrangement</b></p>	<p>The default SIP sets out your aims and objectives, your investment policies, and an explanation of how the default strategy is intended to ensure that assets are invested in the best interests of members and beneficiaries. Your default SIP is likely to have been revised in light of the increasing focus on ESG and stewardship issues, and due to changes in legal requirements (<a href="#">click here</a> to read more).</p> <p><b>Action:</b> <i>If the SIP has been revised mid-year, make sure changes are flagged in the Chair's Statement where appropriate.</i></p>
<p><b>Details of any review of the default strategy or performance of funds underlying the default strategy undertaken during the scheme year, and changes resulting from such a review</b></p> <p><b>OR</b></p> <p><b>If no review has taken place during the scheme year, the date of the last review</b></p>	<p>The default strategy, and the net performance of the underlying investment funds, must be reviewed at least every three years and without delay after any significant change in investment policy/member demographics. TPR suggests that relevant changes could include a bulk transfer, a significant change in trends relating to accessing benefits, or a significant increase in average contributions, and a trend towards consolidating pots within the scheme which increases the average pot size.</p> <p>Any review should include consideration of the membership profile and the performance of the default option in the context of the objectives set out in the SIP, as well as investment products and techniques/market conditions. Consider industry benchmarks for similar fund options; document your evaluation process.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>– <i>Establish information flows and monitoring procedures to ensure that non-standard triggers for review are brought to the attention of the trustees.</i></li> <li>– <i>When choosing funds, ensure you understand the basis on which the total level of costs and charges is calculated and levied on each fund.</i></li> <li>– <i>Gather and monitor information on:</i> <ul style="list-style-type: none"> <li>– <i>the profile, risk appetite and likely access preferences of the membership (active and deferred) – request more detailed reports, if necessary;</i></li> <li>– <i>whether the net return on investments delivered by the funds has delivered the aims and objectives of the default strategy; and</i></li> <li>– <i>wider changes in the pensions/investment landscape (eg flexible access options, investment product innovation).</i></li> </ul> </li> </ul>
<b>Processing core financial transactions</b>	
<p><b>How the requirement to process core financial transactions promptly and accurately has been met during the scheme year in relation to money purchase benefits provided by the scheme</b></p> <p>Core financial transactions are:</p> <ul style="list-style-type: none"> <li>– investment of contributions;</li> <li>– transfers in/out of assets relating to members;</li> <li>– fund switches; and</li> <li>– payments from the scheme to, or in respect of, members.</li> </ul>	<p>TPR expects trustees to treat all transactions relating to the handling of member and employer contributions, and assets relating to them, once received by the scheme, as 'core financial transactions'.</p> <p><b>Promptness:</b> TPR expects trustees to meet the following deadlines for investment of contributions, after reconciliation:</p> <ul style="list-style-type: none"> <li>– where a scheme operates a daily dealing cycle, three working days; and</li> <li>– otherwise, the next available dealing date, and within five working days.</li> </ul> <p>If there are discrepancies in reconciling contributions, unreconciled amounts should be held pending resolution; the remainder should be invested.</p> <p><b>Accuracy:</b> Ensure that contributions, investments and relevant records are reconciled at least monthly; carry out total unit reconciliations with investment managers regularly.</p>

Required content	Explanation and recommended actions
	<p>TPR expects the Chair’s Statement to contain details about service level agreements, as well as trustee processes to monitor performance.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>– <i>Ensure administration agreements include appropriate timescales and processes for promptness and accuracy, and reporting obligations – ask the administrator for details of the processes it uses to meet these requirements. Prepare a short summary of these.</i></li> <li>– <i>Monitor administrator performance regularly and keep a log recording any issues that arose and how these were resolved/your plans to address any unresolved issues.</i></li> <li>– <i>Review processes regularly to improve efficiency.</i></li> </ul>
<b>Charges and transaction costs<sup>2</sup></b>	
<p><b>The level of charges and transaction costs applicable to each default arrangement <u>and</u> for each member self-select fund in which member assets are invested during the scheme year</b></p> <p><b>AND</b></p> <p><b>Details of information on transaction costs that could not be obtained and the steps being taken to get that information in the future</b></p> <p><b>AND</b></p> <p><b>In relation to charges and transaction costs accounted for in the value for members assessment (see below), an illustrative example of the cumulative effect over time of the application of charges and costs on the value of members’ accrued rights</b></p>	<p>TPR expects you to document your calculation process in relation to the charges of default arrangements, and to seek professional advice in all but the most straightforward cases. TPR notes that transaction cost disclosure can be complex; the scheme should ‘assume the role of a demanding consumer’ in seeking transaction cost information. TPR encourages schemes to use <a href="#">industry templates</a> when requesting charges information to gain an understanding of the types and levels of transaction costs that are incurred by different investments and how best to include them in the value for members assessment (see further below).</p> <p>When producing the illustration(s), the statutory guidance states that trustees should use a realistic and representative range of combinations of pot size, contribution rates, investment returns, time and charges and costs. Trustees should take advice on the appropriate range of combinations for their scheme, as this will depend on the membership profile and other factors. TPR expects confirmation that the trustees have taken account of statutory guidance when preparing the section on costs and charges and, if this was not followed, an explanation for this.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>– <i>Consider using the industry standard templates to obtain costs and charges information.</i></li> <li>– <i>Engage early with relevant parties (insurers, investment managers and consultants) to ensure you receive the information in good time; ensure that the information is accurate and complete. For example, you will require the charges and transaction costs applicable to each fund, not the range of charges across funds. For missing information on transaction costs, document the steps being taken to obtain the information in the future.</i></li> <li>– <i>Costs and charges illustration: ensure that the illustration is accurate and complete, and that the statutory guidance has been taken into account. If the guidance has not been followed, ensure you are provided with an explanation for this.</i></li> <li>– <i>Future investment mandates: include disclosure of transaction costs in the selection process and as a contractual term.</i></li> </ul>
<i>Charges and transaction costs: value for members (VFM)</i>	
<p><b>An explanation of your assessment of the extent to which the charges and transaction costs represent good VFM</b></p>	<p>Trustees are required to calculate at least annually the charges and (so far as they are able) transaction costs borne by members and assess the extent to which these represent good VFM. TPR guidance sets out an illustrative method for conducting the assessment, but the approach chosen should be scheme-specific. You should consider members’ characteristics, preferences and financial needs. TPR considers</p>

<sup>2</sup> **Charges** means administrative costs excluding: transaction costs; costs relating to certain court orders; charges permitted in relation to pension sharing orders; winding up costs; and costs solely associated with the provision of death benefits. **Transaction costs** are costs incurred as a result of buying, selling, lending or borrowing investments.

Required content	Explanation and recommended actions
	<p>it good practice for trustees to give members sufficient information on decision-making processes regarding value for money of investment costs and charges on advice and investment transactions, as part of preparing the Chair's Statement.</p> <p>TPR suggests that key areas to consider include scheme management and governance, administration, investment governance and communications. The assessment should focus on scheme services for which members bear the cost. Where costs are shared between members and employers, consider all elements of services provided, and explain the basis of cost sharing in the Chair's Statement.</p> <p>TPR expects an explanation of the conclusion the trustees have reached on VFM (ie not simply a stated conclusion) – it should be clear that the quality of the services provided for the cost was taken into account in the assessment and, if the arrangement did not provide VFM, the trustees should explain this and set out the actions to improve VFM/explore the transition to another arrangement.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>– <i>Develop an assessment strategy; build time into your business plan to gather information (including eg member feedback) and to undertake the assessment.</i></li> <li>– <i>Agree with relevant parties how information is to be obtained and assessed. Monitor adviser/provider performance and investment performance regularly throughout the year.</i></li> <li>– <i>Document steps taken during the year to show that you have followed a proper process taking account of all relevant factors, including how and why you reached your conclusions.</i></li> <li>– <i>If you use a scoring system, include a clear explanation in your Chair's Statement. Monitor value on an ongoing basis; periodically review your assessment process against best practice.</i></li> </ul>
<b>Trustee knowledge and understanding (TKU)</b>	
<p><b>A description of how the TKU requirements have been met during the scheme year</b></p> <p><b>AND</b></p> <p><b>An explanation of how your combined knowledge and understanding, together with the advice available to you, enables you to properly exercise your functions as trustees</b></p>	<p>Each trustee must be conversant with the scheme's governing documents, SIP and any other key administration document, and have sufficient knowledge and understanding of law and investment principles to carry out their trustee duties.</p> <p>TPR expects you to assess knowledge, understanding and skills, and to evaluate the performance and effectiveness of the board as a whole, including the chair, at least annually. Your ability to demonstrate adequate TKU and training may also be relevant to TPR's assessment of penalties in the event of compliance action.</p> <p>TPR expects the Chair's Statement to contain an explanation of how these requirements have been met with reference to specific and detailed information, not just a confirmatory statement, or a very general explanation.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>– <i>Ensure that you have a proper induction process for new trustees, and record how this was implemented during the year.</i></li> <li>– <i>Ensure you have a system in place to identify trustee knowledge gaps (eg self-evaluation).</i></li> <li>– <i>Maintain a rolling training programme tailored to the needs of the trustee body/ individuals, and record all training received (collectively and individually). If the programme for the year does not address all identified knowledge gaps, document how you propose to address these.</i></li> <li>– <i>Implement an appropriate annual assessment process for the effectiveness of the board (eg measure effectiveness against business plan objectives); document the evaluation method used.</i></li> </ul>

## Keep a paper trail

You will need to document and maintain an audit trail throughout each scheme year. TPR's guidance states:

'The statement should explain the process and considerations of trustees with further information to be available on request (we may ask you to produce it during an investigation relating to your scheme)... You should make sure that anything you write in the Chair's Statement is backed up by documented evidence, though you don't need to append this evidence to the statement. There must be an audit trail to enable sign-off and to demonstrate a proper process.'

## Signing the Chair's Statement

The chair of trustees has responsibility for signing off on the Chair's Statement. However, TPR has also issued a reminder that all trustees are jointly responsible for ensuring that the legal requirements they must report on in the Chair's Statement have been met and are well-explained.

## Publication and disclosure requirements

The Chair's Statement must be included in the scheme's report and accounts (to be published within seven months of the end of each scheme year). Schemes are now required to publish specific information contained in the Chair's Statement free of charge on a publicly available website (and to provide this in hard copy on request, if it would be unreasonable for the person to obtain it from the website). As this obligation applies to most (but not all) of the information required to be included in the Chair's Statement, many schemes choose to simply publish the entire Chair's Statement on the scheme's website (in a publicly accessible location). Trustees must also signpost the availability of this information (on the website or in hard copy) to members in the annual benefit statement, by stating that the information is available online (providing the website address, details of where to find the information and an explanation of how the information can be read), as well as the circumstances in which a hard copy of the information will be provided.

## Compliance

Trustees must declare, on their annual scheme return, that they have produced a Chair's Statement that complies with the requirements of the regulations. Failure to produce a compliant statement will result in an automatic fine of between £500 and £2,000 – where there is more than one trustee, the Penalty Notice will be issued to all trustees and state that they are jointly and severally liable for the penalty. Schemes with a professional trustee will generally receive a fine of £2,000. TPR has issued multiple fines in recent years for breach of the requirement, or for failure to provide all the required content in the Chair's Statement. For this reason, we recommend that all draft statements receive a legal review before they are finalised.

*'We continue to expect high standards of trustees and will take action when chair's statements are not compliant with the law.'*

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## Contacts

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