

The Single Code of Practice

What does it mean for trustees of pension schemes?

July 2021



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The consultation on the Code closed on 26 May 2021 and we expect the Code to come in to force towards the end of 2021.

What should trustees be doing now?

Trustees should begin to consider the new Code and what it may mean for their scheme. Particular focus should be given to existing governance policies in light of the new content contained within the Code.

We suggest the following actions can be taken now:



1. Training

Consider training on the new Code and what this may mean for your scheme; training can be provided by your Aon Consultant.



2. Gap Analysis

Document your scheme's current governance policies noting when they were last reviewed or updated and review these against the new code to identify any gaps. (These policies will form the basis of your "Effective System of Governance" under the new Code.)



3. Remuneration Policy

Review your current framework for remuneration and consider what your scheme remuneration policy might look like.



4. Risk Framework

Review your current risk framework and consider whether it meets the standard of the Code, who will be part of the Trustee's Risk Management Function and how you will complete the scheme's first Own Risk Assessment (required within 12 months of the Code coming into force).



5. Responsible Investing

Review your current ESG policy against the recommendations of the Code, consider climate change risks and opportunities with your advisers and build these into your risk management framework.



6. IT Security

Discuss your approach to cyber risk management including understanding third party suppliers' controls, and their policies for maintaining their own IT systems.



7. Scams

Ensure you are aware of the warning signs of pension scams and your responsibilities as Trustee in combatting pension scams and making members aware.



8. Plan

Build in activities relating to the new Code into your business plan.

On 17 March 2021, the Pensions Regulator (TPR) published a 10 week consultation on the long awaited "Single Code of Practice" (the Code). The Code is a consolidation of 10 of the 15 existing Codes of Practice and incorporates changes introduced by the 2018 governance regulations. The remaining 5 codes are due to be reviewed later this year. One of the principle aims of the Code is for all schemes to be held to comparable standards when allowing for differences in legislation. The new Code will apply to defined benefit (DB) and defined contribution (DC), across both the private and public sectors.

Highlights of the Code

The “Governing body”

The Code introduces the term “Governing body” referring to those responsible for running a scheme. The Governing body may be trustees or managers of occupational pension schemes, or, in public service pension schemes, the scheme manager and the pension board.

“Effective System of Governance”

The Code introduces the requirement for schemes to establish an “Effective System of Governance” (ESOG). This should include processes and procedures and anything that can reasonably be considered part of the operation of a pensions scheme.

The Code states that the Governing body should maintain policies for the review of each element of the ESG. Policies should be reviewed at least every three years, to assess whether the policy is functioning as intended and whether changes are required.

“Own Risk Assessment”

The Code also introduces the requirement for schemes to document an “own risk assessment” (ORA) of their system of governance.

The ORA is an assessment of how well governance systems are working, and the way potential risks are managed.

Schemes must prepare and document their first ORA within one year of the code coming into force and should be reviewed annually thereafter. The ORA will need to be signed off by the Chair of the Governing body.

Remuneration policy

The Code introduces the requirement for governing bodies to establish a remuneration policy and keep a written record of it. The policy should include an explanation of the decision-making process for the levels of remuneration, and why they are considered to be appropriate.

The governing body should consider any outsourced service provider. These include, but are not limited to, administration, actuarial, legal advisory, and investment services.

The policy should be published on the scheme website or otherwise made available to scheme members.

ESG and Climate Change

The Code states that schemes should consider Environmental, Social and Governance (ESG) matters in their investment decision making process and risks should be captured in the risk management framework.

Governing bodies should talk to their investment adviser and asset managers about how short and long-term climate change risks and opportunities are built into their recommendations and understand what measures are being taken to reflect climate change risk within investment portfolios.

Information Technology

The Code includes new material on IT in relation to maintenance of IT systems and cyber controls.

Governing bodies should take steps to ensure that their service providers are able to demonstrate they meet TPRs expectations for maintaining IT systems.

The Code also sets out TPRs expectations on Governing bodies to assess and manage cyber risks, including responsibility on Governing bodies to review the internal controls of service providers.

Scams

The Code include a new module on Scams. Governing bodies should be aware of the warning signs of a pension scam and should ensure that as part of their internal controls they take appropriate steps to mitigate the risk of scams.

Governing bodies should take steps to ensure that members are aware of the risk of scams by including clear information on to spot a scam in all relevant communications to members and scams warning messages on member websites.

Aon can assist you in assessing compliance against the draft code of practice so that you are clear on the actions that are required to meet any gaps in compliance. Aon is able to provide access to a wide range of policies that will help Trustees in their journey to compliance.

Please speak to your usual Aon contact or one of the team if you would like to know more.



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