



# **The Pensions Regulator's Single Code of Practice**

**– a new governance standard**





# Introduction

**With The Pensions Regulator's consolidated Code of Practice ("the Code") due to come into force in early 2022, trustees should begin considering what action needs to be taken.**

We now have a first draft of the new Single Code, which not only consolidates 10 of the 15 existing Codes of Practice but also introduces significant new governance responsibilities. The new Code contains 51 modules and covers the requirements of an EU Directive known as IORP II.

**We believe the new Code is a step in the right direction, but many will see it as a significant increase in the governance burden put on trustees. There is an easement for schemes with fewer than 100 members which means they won't have to comply, by law, with all of the requirements.**



# The Single Code document

The Code is spread across five broad chapters with modules on key topics in each.

The governing body	Funding and investment	Administration	Communications and disclosure	Reporting to The Pensions Regulator
Governing body structure and activities	Investment governance	Information handling and data integrity	Information to members	Regular reporting
Knowledge and understanding	Decision making	IT and Cyber Controls	Public information	Whistleblowing
Value for members	Reporting and monitoring	Contributions	Pension scams	
Advisers and service providers	Stewardship			
Risk management	Climate change			
Governance	Statement of Investment Principles			
	Default arrangements			



# What is new?

**For many pension schemes a lot of what is included in the Code will already exist in one form or another. After all, the majority of the Code is taken from pre-existing legislation.**

The challenge may be ensuring that current practice is understood, documented, and can be demonstrated to be part of a governance system. However, there are a number of new areas that most schemes won't yet have looked at in detail which they will need to engage with.

**These include:**

## **Remuneration policy**

– a written record of the levels and means for remunerating those undertaking activities in relation to the scheme, with particular focus on “in-house” roles.

## **Cyber risk**

– governing bodies should take steps to reduce the risk of cyber incidents occurring and appropriately manage any incidents that arise.

## **Maintenance of IT systems**

– governing bodies should have appropriate IT systems in place, review them regularly, and have a written policy for their maintenance, upgrade, and replacement.

## **Climate change**

– governing bodies should consider environmental factors as part of their investment decision-making and assess the risks and opportunities associated with climate change.

# What is an effective system of governance (ESOG)?

Running throughout the Code is the requirement that trustee boards and scheme managers (collectively referred to as “governing bodies” in the Code) need to have effective systems of governance, including internal controls, that:

- provide the governing body with oversight of the day-to-day operations of the scheme
- include any delegated activities for which the governing body remains accountable
- provide the governing body with assurances that their scheme is operating correctly and in accordance with the law

An effective system of governance will include anything that can reasonably be considered part of the operation of a pension scheme.

Internal controls are a key feature of any system of governance.

They are:

- the arrangements and procedures to be followed in the administration and management of the scheme
- the systems and arrangements for monitoring the administration and management
- the arrangements and procedures to be followed for the safe custody and security of the assets of the scheme

However, the draft Code does state that a governance system only needs to be proportionate to the size, nature, scale and complexity of the scheme.

# Own Risk Assessment (ORA)

The purpose of the ORA is to assess how well the governance systems are working and the way potential risks are managed.

It is intended that the ORA will be a standalone document and that the first one will be completed within one year of the Code coming into force. A further ORA is expected annually thereafter.

The Pensions Regulator states that the ORA will not need to be sent to them, but it may be requested as part of any supervisory activity. Again, the draft Code emphasises the need for proportionality relating to the size, nature and complexity of each scheme.

# Broadstone comment

**We believe many trustee boards will view the requirements of the new Code as a significant challenge for them to review and revamp their governance structure. However, we should reiterate that a scheme's ESOG and ORA should be proportionate to the size, nature and complexity of the scheme.**

One of the intentions of the ESOG is to put trustees in a position where they can more easily act and react in accordance with the most material risks posed to the scheme. Having an ESOG will help trustees to structure their meetings and apportion their time to deal with the most important issues. Where good quality controls are in place, risks can be considered managed but where there are gaps trustees should spend their time focussing on and mitigating those risks.

## Next steps

For most, some new learning will be required to understand the additional requirements. A gap analysis may be helpful, i.e. to identify where a scheme currently complies and where it does not. A plan can then be agreed to consider and create any missing policies and to document these. We can work with you to produce the analysis and rectify any gaps in an appropriate way.

Trustees may wish to establish a sub-committee to create the ESOG and the first ORA. Indeed, having an effective risk management function, which is part of the Code, could be satisfied by delegating responsibility for identifying and evaluating risks, internal controls, and risk management to a sub-committee.

If you are part of a governing body, you will need to ensure you have documented your policies across the 51 different module areas. Your governance system will need to be reviewed at least every three years.

**We are expecting the final version of the Code in early 2022 and, technically speaking, schemes will need to comply immediately as it has been law since 2018. However, some schemes will need time to get their governance in good shape before commencing an ORA.**



# Actions for trustees

## ACTION LIST

01

Make sure you are aware of the requirements and expectations of the Code.

02

Arrange training on the contents of the Code.

03

Decide who will lead the project to ensure compliance with the Code and consider the use of a sub-committee.

04

Conduct a gap analysis between your scheme's current arrangements and the Effective System of Governance requirements.

05

Plan and prioritise filling the gaps and determine who is best placed to do so.

06

Plan your scheme's Own Risk Assessment.



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