

# OWN RISK ASSESSMENTS

MADE SIMPLE GUIDE





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#### ACKNOWLEDGEMENTS

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# FOREWORD

**THE DRAFT CODE PLACES A WELCOME SPOTLIGHT ON THE IMPORTANCE OF GOOD GOVERNANCE, AND WE SUPPORT ITS OVERALL AIM. WE FIRMLY BELIEVE THAT HAVING A DEFINED AND ROBUST SYSTEM OF GOVERNANCE MEANS GOVERNING BODIES CAN BE SURE THEY ARE MEETING THEIR OBLIGATIONS AND CAN CARRY OUT THEIR ROLE EFFICIENTLY AND EFFECTIVELY. DONE RIGHT, GOOD GOVERNANCE CREATES A FOUNDATION FOR MAKING ROBUST AND TIMELY DECISIONS AND ACHIEVING BETTER OUTCOMES FOR YOUR MEMBERS.**

Although the new Code is based largely on existing Codes of Practice, it does introduce new requirements for both defined benefit (“DB”) and defined contribution (“DC”) schemes. In particular, governing bodies will need to have in place an effective system of governance (“ESOG”) and complete an own risk assessment (“ORA”). The Pensions Regulator (“TPR”) has also taken the opportunity to update and streamline the content and structure of the Code to better meet the current needs of schemes.

We are conscious that although the ORA is described by TPR as a “substantial process”, there is presently little guidance on how schemes should approach the task, particularly in terms of what the finished product should look like and how smaller schemes can address the requirements. We also appreciate that it is not easy to distinguish within the Code between what was an existing requirement and what is new.

This Made Simple Guide aims to cut through some of the uncertainty around the ORA and to give practical tips on how to collate the information needed. It builds on [LCP’s Guide to the ESOG](#) which highlights the policies, procedures and processes governing bodies will need to establish and document; and provides clarity on how governing bodies can proportionately address the new requirements. We will be sharing more of our thoughts, including suggestions for how you could structure your ORA, once the Code has been finalised.

We believe that the principles of the ESOG and ORA, when implemented proportionately and integrated with the business of the governing body, can help to strengthen and streamline decision-making and improve governance.

I would like to thank the team at LCP (in particular Katie Walker, Jill Ampleford, Katie Courtney, Tony Bacon, George Currie and Claire Jones) whose hard work has made the production of this guide possible, and our friends at the PLSA for supporting us on our mission to champion good governance in pension schemes. We hope that our guidance helps you to embrace the new requirements proportionately within your scheme.

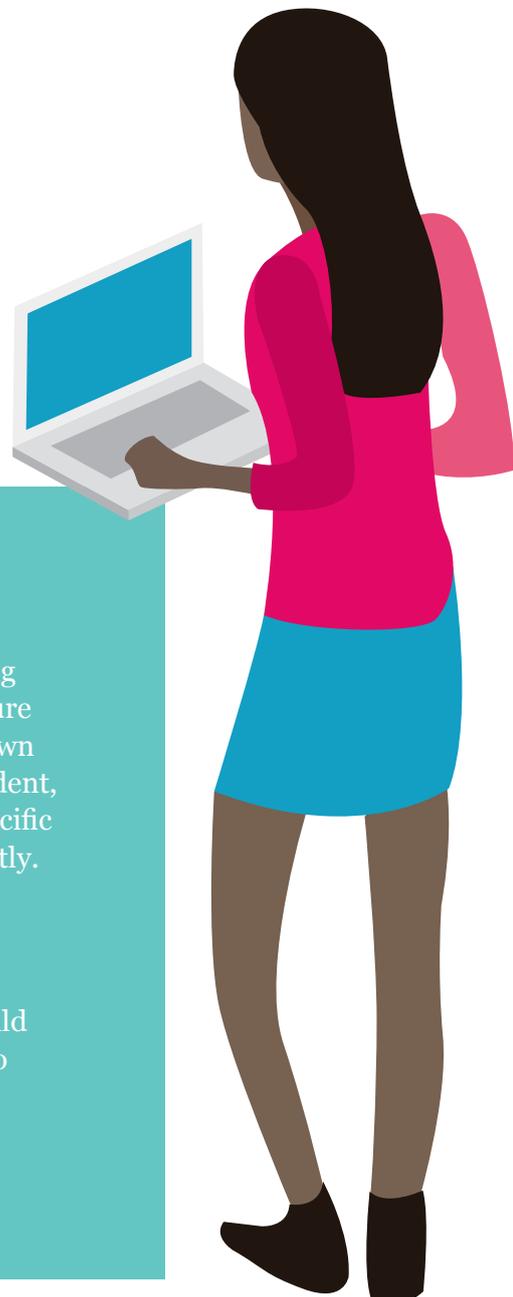


**Rachika Cooray FPMI**  
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July 2022

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Lane Clark & Peacock LLP is the largest owner-managed specialist pensions consulting firm in the UK and Ireland with over 800 staff including 150 partners. We focus our efforts on making sure that every client gets the right advice for their own unique circumstances. Because we are independent, we don't have a stake in recommending any specific solutions, so clients can trust our advice implicitly.

We are passionate about good governance and helping governing bodies to better manage their schemes and we are focused on delivering simple, practical and effective solutions. We build longstanding relationships with our clients, who tend to have worked with us for many years, because we believe that is the best way to build consistency and trust.



# SECTION 1: THE PENSIONS REGULATOR'S SINGLE CODE OF PRACTICE

## 1. WHAT IS THE CODE?

TPR's single Code of Practice was released in draft form in early 2021 and is expected to be finalised in 2022. The new Code comprises 51 modules and currently represents the content of 10 of the 15 existing Codes of Practice. The Code will also include the requirements of the second European Pensions Directive (commonly known as IORP II) as reflected in the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018.

Once the new Code comes into force, the Codes of Practice that are being replaced will be revoked in their entirety. TPR's expectation is that the remaining Codes of Practice will be brought into the new Code in due course.

As a result of the single Code, new governance responsibilities for governing bodies of both DB and DC pension schemes will be introduced.

## 2. WHEN DOES THE CODE COME INTO FORCE?

At the time of preparing this guide, TPR has not disclosed a publication date for the new Code. Once the new Code has been laid before Parliament, we anticipate the final version to be available in late 2022.

It is important to remember that some of the new requirements have already been transposed into UK law through the 2018 governance regulations, so there is a strong argument for governing bodies not to delay their preparation work for addressing the new requirements.

## 3. WHO DOES THE CODE APPLY TO?

The Code applies to governing bodies of occupational, personal and public service pension schemes. TPR has introduced the term "governing body" to provide consistency when referring to the trustees or managers of occupational pension schemes, managers of personal pension schemes, and scheme managers and pension boards of public service schemes that it regulates. Where there is any doubt in a scheme as to where a responsibility or accountability lies, the governing body should take steps to establish the position.

We recognise the requests made to the Regulator for a Local Government Pension Scheme ("LGPS") version of the Code and the PLSA is committed to providing support in ensuring the term "Governing Body" is clarified for the LGPS, as it can refer to more than one entity for the scheme.

## 4. STATUS OF CODES OF PRACTICE

TPR's Codes of Practice are not statements of law. They set out how TPR expects schemes to comply with the law in certain areas. The new Code distinguishes between legal duties ("must"), TPR's expectations ("should") and necessary processes ("need").

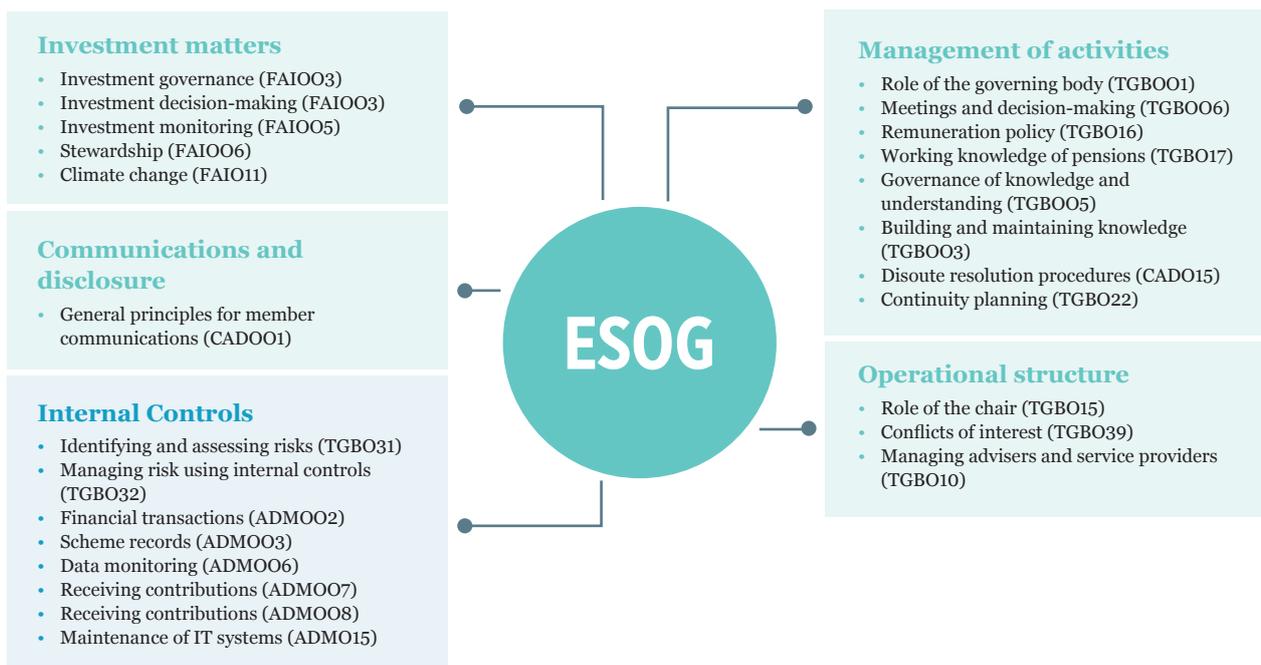
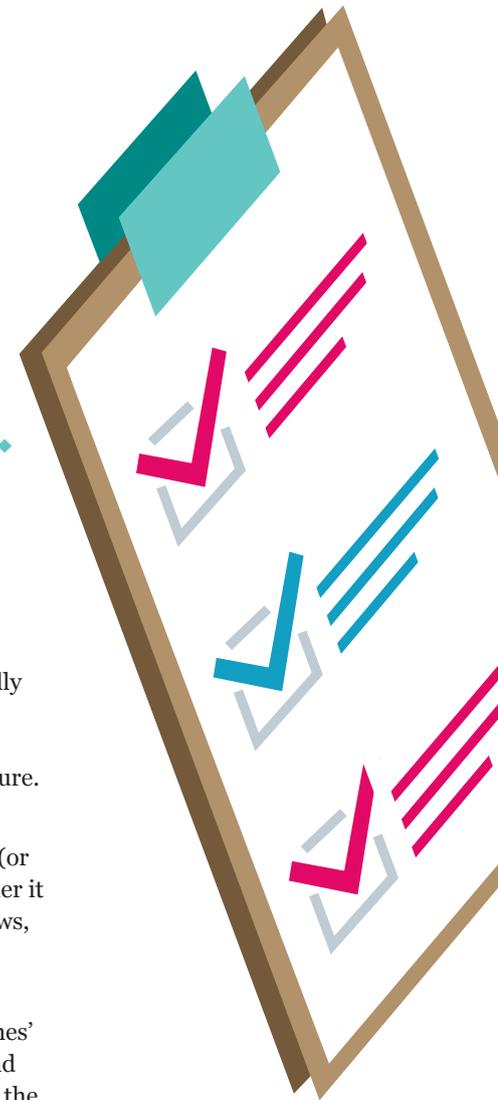
## 5. WHAT'S NEW?

### EFFECTIVE SYSTEM OF GOVERNANCE

Governing bodies are required to establish an ESOG, although a small number of the requirements only apply to schemes with more than 100 members. The ESOG is essentially a collection of policies and procedures that a scheme should have in place in order to be operating effectively. An ESOG covers 17 modules in the Code relating to management of activities, organisational structure, investment matters, and communications and disclosure. It also includes eight modules relating to internal controls.

Once an ESOG is established, each element should be reviewed at least every three years (or sooner if there is significant change to the scheme's governance or key risks) to see whether it is functioning as planned. Governing bodies should have policies in place for ESOG reviews, and these policies should also be reviewed every three years.

Many pension schemes already have robust governance frameworks in place which will provide a good foundation for an ESOG. However, it is likely that some changes to schemes' existing governance policies and processes will be required to meet new requirements, and more focus on areas like Stewardship and Climate Change will be needed. LCP's Guide to the ESOG simplifies the requirements and highlights the policies, procedures and processes that governing bodies will need to establish and document.





## NEW FUNCTIONS

### The Code requires governing bodies to establish three new Functions:

- ▶ A Risk Management Function, which may be a sub-committee or an independent body, to which the governing body delegates responsibility for identifying, evaluating, monitoring and reporting on key risks and internal controls. For some pension schemes this responsibility could remain with the board, or be delegated to an in-house pensions team or a third-party adviser.
- ▶ An Internal Audit Function, which is responsible for independently evaluating the adequacy and effectiveness of the system of governance. This is different and wider in scope to the annual statutory audit and includes non-financial processes and controls. This Function may, for example, be carried out by the sponsor's in-house internal audit function, an outsourced provider or a third-party audit firm.
- ▶ An Actuarial Function, which is simply the scheme actuary role for DB schemes. From our reading of the requirements, this Function does not apply to pure DC schemes.

## OWN RISK ASSESSMENT

The most significant new requirement is for schemes with more than 100 members to undertake and document an ORA which is an examination of how well the ESOG and how any potential risks are being mitigated.

The rest of this guide focuses on the requirements of the ORA and provides practical tips on how governing bodies can address their first ORA.

Expectations of specific governing bodies within the LGPS will also need to be specified, as the Code in its current form blurs the boundaries between the pensions board and the pensions committee.

# SECTION 2: AN INTRODUCTION TO OWN RISK ASSESSMENTS

## THE HIGHLIGHTS

1. What is an ORA?	An assessment of how well your governance system is working.
2. What should an ORA cover?	A review of the effectiveness of each of the policies covered by the ORA.
3. How should the ORA be documented?	In writing, signed by the Chair, and made available on request.
4. Who must complete an ORA?	Pension schemes with more than 100 members.
5. What are the timescales for producing an ORA?	The draft Code states that the first ORA should be produced within 12 months of the Code coming into force, and is an annual requirement.
6. How does the ORA apply to different types of schemes?	The ORA is intended to apply to all types of schemes, be they public sector DB, private sector DB, DC, or a hybrid arrangement.
7. How does the ORA interact with other risk management processes?	TPR intends the ORA to sit separately to the risk register and integrated risk management monitoring processes.
8. Why is an ORA important and what value does it add?	The ORA should not be a tick-box exercise; it gives the opportunity to step back and think about how governing bodies operate.
9. What happens if an ORA isn't produced?	While there is unlikely risk of a civil penalty, failure to produce an ORA may result in increased scrutiny from TPR and reputational damage.

## 1. WHAT IS AN ORA?

The ORA is an assessment of how well your governance systems are working and how potential risks are being managed. You should think of the ORA as an annual check-in on how well your scheme's governance framework is working, and use it as an opportunity to consider any changes or improvements that should be scheduled for the coming year.

Findings from the ORA should be incorporated into the scheme's management and decision-making processes, to adjust or create new processes, and to highlight any areas of work that the governing body needs to undertake.

## 2. WHAT SHOULD AN ORA COVER?

### The ORA will need to cover the following:

How you have assessed the effectiveness of each of the policies covered by the ORA and whether the governing body consider this approach to be effective and why.

- ▶ Policies and procedures for the governing body – including how risk assessment and mitigation is integrated into management and decision-making processes, and policies relating to the role and knowledge of the governing body.

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- ▶ Risk management policies – including internal controls policies, management of conflicts, and continuity and succession planning.
  - ▶ Investment – including investment governance processes, stewardship, investment monitoring and decision-making, climate change, protection of member benefits on sponsor insolvency, assessment of protection mechanisms such as sponsor guarantees, and risks relating to indexation of benefits.
  - ▶ Administration – including risks associated with financial transactions, scheme records and receiving contributions and how the governing body manages overdue contributions.
  - ▶ Payment of benefits – including how the governing body assesses operational risks such as record-keeping and payment of benefits, and the management of risks relating to potential reductions to member benefits.

### 3. HOW SHOULD THE ORA BE DOCUMENTED?

#### **Governing bodies should:**

- ▶ Ensure the ORA is in writing. We see this as being an electronic document, similar to other governance documents, rather than a printed report that needs to be physically held.
- ▶ Provide the ORA documentation to all members of the governing body. We would anticipate that the easiest way for most schemes to do this is to upload a copy of the ORA documentation to the governing body's online document storage system so that it is easily available for reference.
- ▶ Ensure the ORA documentation is available on request. TPR has confirmed that records of the ORA do not need to be sent to them, but they may ask to see it as part of supervisory activity.
- ▶ Make sure the Chair of the governing body signs off the ORA. Whilst TPR has not clarified whether the Chair takes any responsibility for the ORA, we anticipate that in this instance the Chair would sign the ORA on behalf the governing body, once it has been reviewed and adopted by the governing body.

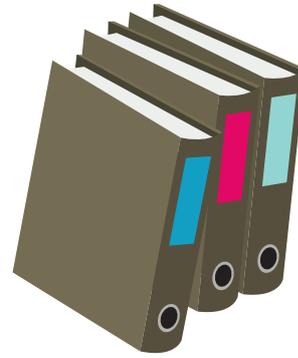
#### **The ORA should record:**

- ▶ The date on which the ORA has been prepared.
- ▶ The date on which the next ORA will be prepared.
- ▶ Details of any interim reviews or updates that the governing body has carried out or plans to carry out.

### 4. WHO MUST COMPLETE AN ORA?

Pension schemes with more than 100 members will have to complete an ORA. We are awaiting clarification from TPR whether the definition of “members” includes pensioners.

If you believe your scheme will have wound-up very soon after your first ORA is due, we recommend talking to your scheme's legal adviser about how to meet the requirements proportionately.



## 5. WHAT ARE THE TIMESCALES FOR PRODUCING AN ORA?

The timescales specified within the draft Code are not consistent with those in the 2018 Regulations issued by the Department for Work and Pensions on which the Code is based. We are hoping this will be clarified when the Code is finalised, and we will update this guide at that time.

The draft Code states that a governing body must prepare its first ORA within 12 months of the Code coming into force and that an ORA must be produced annually, or sooner if there is a material change to the risks facing the scheme or the way that it is governed.

Material changes may include:

- ▶ A transfer to a sole corporate trustee
- ▶ Insolvency of the sponsor
- ▶ A merger or acquisition involving the pension scheme
- ▶ Fully securing member benefits with an insurer
- ▶ A significant number of changes to the member-nominated and employer-nominated trustees

The timescales specified in the 2018 Regulations are more relaxed. The 2018 Regulations state that an ORA must be completed only every three years and the first ORA is not due until 12 months after the first full scheme year after the Code comes into force. For example, if the Code comes into force in November 2022 and your scheme year begins on 1 January, the first ORA would be due within 12 months of 1 January 2024.

TPR remains of the view that you should still prepare the first ORA in a timely fashion, taking the legislative timescales as a maximum but preparing the document in a shorter timescale as a matter of best practice.

## 6. HOW DOES THE ORA APPLY TO DIFFERENT TYPES OF SCHEMES?

The ORA is intended to be applicable to all types of scheme whether they are public sector DB, private sector DB, DC, or hybrid arrangements.

The preparation of an ORA for schemes that offer only DB or DC benefits will be a more straightforward exercise than for those that have both types of benefit in the same trust, as the focus of the assessment will be clearly targeted. Where both DB and DC arrangements fall under the same trust, we would encourage governing bodies to carry out a single ORA covering both types of benefits. The rationale for this is that in most hybrid arrangements, DB and DC schemes are managed together following the same governance frameworks. We encourage governing bodies to use the ORA to promote a more integrated approach to the assessment of governance systems and their effectiveness across the pension scheme as a whole.

That said, DB and DC sections face distinctly different risks, and necessarily have different processes in place to deliver the types of benefits they offer. Where a governing body manages DB and DC benefits, risks will need to be considered separately when preparing the ORA to ensure that there are effective systems in place to identify and manage those relevant to the different benefit types. Consideration of the effectiveness of governance systems as part of the ORA will also need to take into account the extent to which they are appropriate for DB and DC sections.



### Key questions to consider as part of your ORA include:

- ▶ What are the risks that are particular to the different benefit types present in the scheme?
- ▶ Do the risks identified for different types of benefit have distinct processes to mitigate them?
- ▶ Are risk management policies and internal controls aligned with the different benefits the scheme offers?
- ▶ Do the governance systems that exist in the scheme operate effectively across all types of benefit?

## 7. HOW DOES IT INTERACT WITH OTHER RISK MANAGEMENT PROCESSES?

TPR describes the ORA as a “substantial process” and states that schemes may need to expand their risk assessments to fulfil the Regulator’s expectations. For schemes with an engaged governing body and a strong governance process already in place, we do not expect the ORA to be too substantive a task, particularly once an ESOG has been established and after the first ORA has been completed and the process becomes business-as-usual. Other schemes may find that they have more work to do to meet TPR’s requirements. It’s clear to us from our reading of the Code that TPR intends the ORA to sit separately to the risk register and integrated risk management (“IRM”) monitoring processes. The ORA focuses on the risks that impact specifically on a scheme’s system of governance, and a scheme’s internal processes (including the risk register) form part of that assessment.

We encourage you to continue to maintain and review the risk register at regular intervals as the identification and management of risks in the scheme is vitally important.

In practice, there will be some overlap in topics between the ORA and other risk management processes. For example, a risk register is likely to include conflicts of interest and key person risk, and these are also themes that are covered by the ESOG through a conflicts of interest policy and continuity planning. The risk register and IRM monitoring processes are live frameworks which we encourage governing bodies to consider and evolve throughout the year. Meanwhile, the ORA is an annual report which provides a snapshot of the governance framework at a point in time and provides actions to be addressed before the next ORA is due. Governing bodies should use the ORA as a tool to help the continued improvement of the governance of the scheme.

## 8. WHY IS AN ORA IMPORTANT AND WHAT VALUE DOES IT ADD?

The ORA provides you with an opportunity to take a step back and think about how you operate. Governing bodies are busier than ever, and it can be difficult to make time for governance activities among all the other business of the scheme. However, in the long term good governance supports better decision-making and will lead to better outcomes for members, so it’s important to give it sufficient focus.

Against the backdrop of increasing workloads, it would be easy to see the ESOG and the ORA as red tape, particularly where governing bodies have been operating successfully for some time without the written policies required. However, there’s a lot of value in getting your governance and decision-making frameworks down on paper. For a scheme with a large support team this will ensure consistency and efficiency, and for a scheme with a smaller support team it will prevent



concentration of knowledge and mitigate key person risk. Taking the time to deal with this properly will allow the scheme to streamline decision-making, and to devote more time to strategic matters in future.

TPR is keen for the ORA not to be perceived as an item of tick-box compliance, and we wholeheartedly agree with this position. In order for the ORA to remain current and relevant to a scheme, it is important for the underlying policies and frameworks to be changed and updated as the circumstances of the scheme evolve. We encourage governing bodies to ensure that any new policies or frameworks agreed are relevant and useful to the scheme, and that they are used to efficiently and effectively carry out business. We would be disappointed to see schemes put in place a vast number of new governance policies that do not add value to how the governing body operates.

## 9. WHAT HAPPENS IF AN ORA ISN'T PRODUCED?

TPR Codes of Practice are not mandatory in the same way that legislation is, so there is no question of the civil penalties that may apply to breaches of pensions law being brought to bear. However, the legislation (PA04, Section 90(4)&(5)) under which Codes are made provides the following:



**A CODE OF PRACTICE ... IS ADMISSIBLE IN EVIDENCE IN ANY LEGAL PROCEEDINGS AND, IF ANY PROVISION OF SUCH A CODE APPEARS TO THE COURT OR TRIBUNAL CONCERNED TO BE RELEVANT TO ANY QUESTION ARISING IN THE PROCEEDINGS, IT MUST BE TAKEN INTO ACCOUNT IN DETERMINING THAT QUESTION.**

This means that in the event of a governance failure, which resulted in legal proceedings (including legal proceedings brought in relation to regulatory action) against a governing body occurred, it may be damaging to your defence if it could be shown that you had failed to comply with requirements of the Code, including the ESOG and ORA, which are designed to spot governance failures.

More generally, ORA non-compliance may result in increased scrutiny from TPR, reputational damage and a question mark over whether the governing body is exercising its duties and protecting members' benefits properly.

# SECTION 3: PRACTICAL TOP TIPS

## 1. ESTABLISH AN ESGO FIRST

Before starting your ORA, it is important for governing bodies to establish an ESGO. We encourage governing bodies to refer to LCP's Guide to the ESGO, and as a first step complete a gap analysis of their governance policies and frameworks against the requirements of the Code. Once a gap analysis has been completed, governing bodies should formulate a plan to address any gaps. We recommend that the ESGO and its underlying policies and procedures are established before the first ORA is completed.

## 2. CONSIDER GOVERNANCE RISKS HOLISTICALLY

The ESGO can broadly be split into four high-level categories as set out in the Code. Under each of these categories, we have set out some areas you may find helpful to bear in mind when considering risks. To bring this to life, we have also shared some examples of good practice that we have seen the schemes we work with demonstrate in these areas. Please note though that this isn't an exhaustive list of examples, and indeed not all will be suitable or applicable to all schemes.

### MANAGEMENT OF ACTIVITIES

*For example:*

**- Do you know, understand and agree with the objectives for the scheme?**

Trustees' objectives are included in the scheme's business plan. These are reviewed annually and approved by the trustees. Key risks within the scheme are considered in relation to how they may impact the trustees' key objectives. Objectives are purposefully kept simple and reflect the trustees' long-term plans for the scheme.

**- Is the risk appetite of the governing body understood?**

The trustees regularly review the risk register and use it proactively to conduct trustee business. The trustees have held workshops with their investment advisers to discuss their risk appetite in terms of the scheme's assets. The trustees also consider the sponsor's view of the level of risk in the scheme.

**- Is business focused on what's important, or purely what is urgent?**

The trustee secretary maintains a scheme calendar to allow foresight of regular business. The business plan considers the trustees' objectives and journey planning, to ensure the scheme is progressing as planned. The trustees' advisers ensure the scheme is prepared for its long-term objectives, for example ensuring scheme data is in a position to be shared with insurers as the trustees move towards buy-out.

### ORGANISATIONAL STRUCTURE

*For example:*

**- Are all members of the governing body clear on roles, responsibilities and delegations to sub-committees and advisers?**

Each sub-committee has clear terms of reference which are reviewed annually, or sooner in the event of a significant change to the scheme. These terms of reference can be found in the trustees' online document portal.

Decisions delegated to sub-committees are clearly minuted. Non-conflicted trustees are able to view the minutes of any sub-committee meeting.

The trustees maintain a policy setting out their use of advisers, setting out the roles and responsibilities of each.

**- Is the governing body aware of any behavioural biases it may be practising?**

The governing body recently invited an expert to a meeting to provide some training on common behavioural biases and tips on how to combat them. Behavioural biases are considered in the scheme's risk register, and the trustees regularly undertake a review of their board effectiveness. The governing body has agreed to hold refresher sessions on behavioural biases every 18 months and actively consider mitigations against groupthink during decision-making.

**- Do all the members of the governing body have sufficient time to devote to scheme business?**

Regular trustee meetings are arranged in advance and meeting papers shared one week before each meeting to ensure trustees have sufficient time to prepare. Trustees appreciate that urgent business can occur, which could mean that meetings are required at short notice. In this instance, the trustees make use of technology and hold virtual meetings via Microsoft Teams to allow for additional flexibility.

The time commitments required of trustees are made clear when a new trustee joins the board.

The size of the trustee board and its quorum requirements are considered to ensure that trustee business can continue in busy times.

**- Does the governing body have in place sufficient arrangements to ensure the continuity of business and decision-making?**

The governing body has a business continuity plan which is implemented as required. The document outlines broad contingency arrangements to ensure that core scheme activities can continue in the event of a major incident.

The scheme continued to operate effectively during the Covid-19 pandemic, demonstrating that the trustees have the appropriate plans in place to continue with key scheme activities in extreme circumstances.

**- Is the governing body confident in challenging its advisers?**

The trustees have a wide range of expertise and backgrounds, and are therefore able to challenge their advisers in key areas such as investment and legal advice. Advice relating to pension schemes can often be complex, however, the trustees are comfortable in asking their advisers to provide further clarification, evidence, or a stronger recommendation as needed.

**- Is the governing body able to identify and manage conflicts of interest appropriately for the size and complexity of the scheme?**

The trustee secretary maintains a comprehensive conflicts of interest register, covering both trustees and advisers. This complements a detailed policy covering how conflicts should be identified, managed and handled. There is a standing item to raise any additional conflicts at the beginning of each meeting.

Conflicted trustees are asked to leave meetings as required, and understand the reasons for this.

## INVESTMENT MATTERS

*For example:*

**- Is the governing body aware of the level of risk in its investment strategy?**

The investment adviser reports on the scheme's investment holdings on a quarterly basis. This includes information on the performance of each fund relative to a benchmark, the Value at Risk, and inflation and interest rate sensitivities.

At a higher level, the trustees review the Statement of Investment Principles regularly and prepare an Implementation Statement annually. These contain clear statements on the trustees' approach to risk, and the level of risk within the portfolio.

## COMMUNICATIONS AND DISCLOSURE

*For example:*

**- Are members engaged with the scheme?**

The scheme has its own website hosted by the administrator, containing scheme-specific information and general topical news stories such as anti-scam guidance. Members are able to log in to a secure area of the site to view and update their personal information and access retirement quotations. 50% of members have registered with the website, and 30% access it regularly.

**- Does the level of risk align with the long-term funding target?**

The trustees are comfortable that the level of risk within the scheme is aligned with the long-term funding target and the sponsor covenant.

In 2020 the trustees implemented a schedule of de-risking triggers, and actioned their first de-risking trade in Q3 2021. The trustees plan to align their assets more closely with those valued by insurance companies, in line with the long-term target of buying out the scheme.

**- Is the governing body aligned on responsible investment?**

The trustees discussed their approach to responsible investment at their Q4 2021 trustees' meeting. This was a robust discussion, considering the views of the governing body, the approach of the sponsor, and the trustees' legal requirements. Ahead of this meeting, the trustees completed a survey issued by the investment adviser about their responsible investment beliefs, with results shared anonymously to supplement the discussion. This showed a good degree of consensus among the trustees about how environmental, social and governance ("ESG") matters may affect investment markets and how this should be reflected in the scheme's investment approach. While some alternative views were raised during the discussion, the trustees are content that their approach to responsible investment remains appropriate and is broadly aligned with their responsible investment beliefs.

**- Is the governing body aware of how members like to be communicated with, and what information they want to see?**

The trustee board is well connected to members, as a large deferred population remains employed by the sponsor. The scheme calendar includes an annual discussion on the ways in which members are communicated with, and the kind of information that is provided.

The trustees are in the process of expanding their use of technology to make communications more accessible, such as giving members the choice of receiving newsletters via email, in large print, or in braille.

**- Do members make good choices with their benefits?**

While the trustees are unaware of members' personal circumstances and are therefore not in a position to make a judgment on their choices, they have worked with the sponsor to put in place ongoing IFA support which members can choose to access.

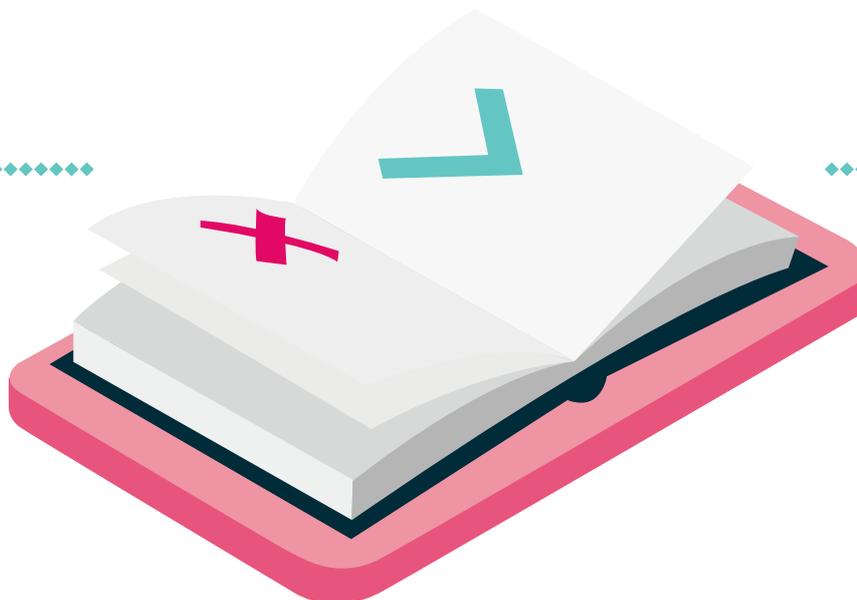
The trustees have recently undertaken a project to encourage members to engage with their Additional Voluntary Contributions (or AVCs), and review how these are invested.

Members of the DC section are signposted to Pension Wise at retirement, and the trustee has put in place a retirement master trust arrangement to enable members to access the full range of pension freedoms.

**- Does the governing body regularly review the options available including their terms, how they are communicated and what support is given?**

The options available to members and their terms are reviewed triennially, following each actuarial valuation. They also review how and when options are communicated. Members receive an indicative transfer value as part of their retirement packs.

Members are directed to MoneyHelper to help them source a financial adviser when they want or need to take regulated financial advice.



### 3. WHO SHOULD COMPLETE THE ORA?

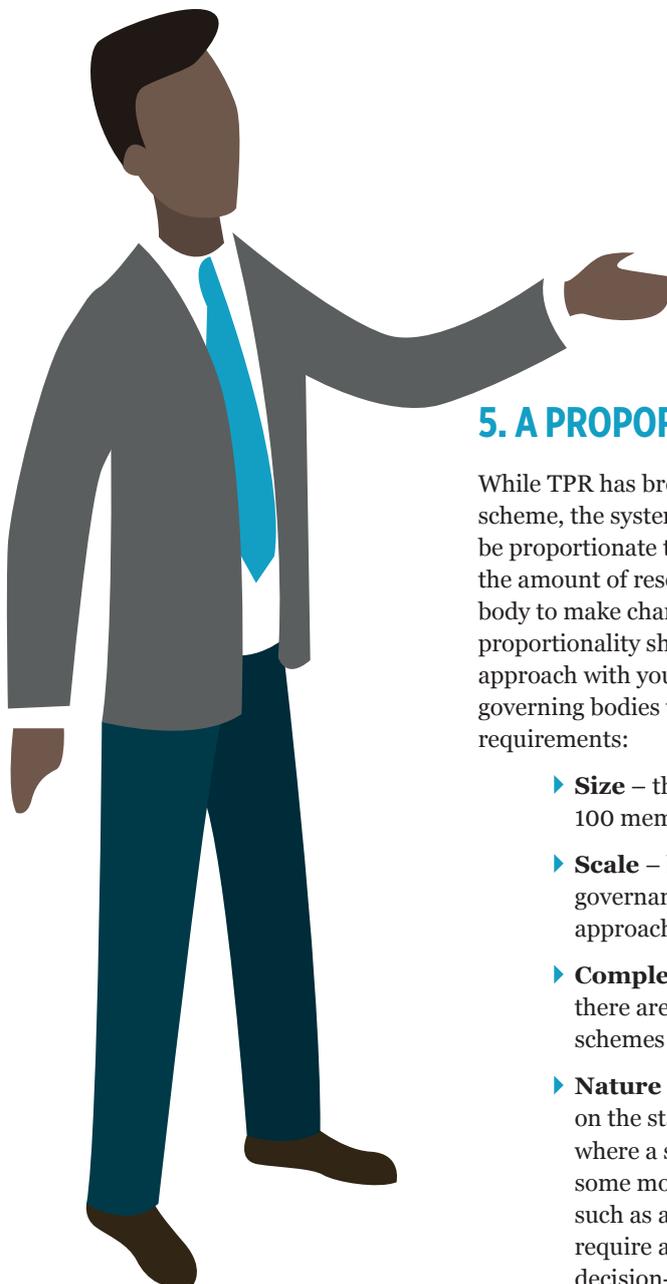
While an ORA does not have to be independent, it does have to be objective. Governing bodies should play a part in either drafting or reviewing the report, as they are ultimately responsible for ensuring an ORA is produced and should know their schemes better than anyone else. However, professional trustee secretaries and governance consultants or in-house teams will be well placed to assist in completing the assessment and finalising the ORA report, particularly for year one.

Governing bodies may wish to task the risk management function with overseeing the completion of the ORA.

### 4. HOW TO ASSESS THE EFFECTIVENESS OF YOUR GOVERNANCE SYSTEM

A key element of the ORA is to assess the effectiveness of the governance system. We've set out below some points governing bodies may wish to consider as part of this assessment:

- ▶ Does the policy reflect the current circumstances of the scheme?
- ▶ Is the aim of the policy clear without reading the full document?
- ▶ Is the policy written concisely, using as little technical language as possible, and defining any jargon?
- ▶ Does the policy accurately reflect the steps that the governing body would take in practice?
- ▶ Are the roles and responsibilities for all parties clearly defined? Is it clear who on the governing body has responsibility for a particular role?
- ▶ Could a newly appointed trustee use the policy to correctly follow a process?
- ▶ Does the policy consider any conflicts, or dependencies on other policies?
- ▶ Does the policy reference the most recent relevant legislation?
- ▶ Does everyone know the policy exists? Would all members of the governing body know how to access the policy?
- ▶ Does the policy enable the process it details to be carried out efficiently and effectively?
- ▶ If the policy was published online for members to read, how would the scheme and its sponsor(s) be perceived?
- ▶ Is it clear when the policy was written, and when it was last reviewed?



## 5. A PROPORTIONATE APPROACH IS KEY

While TPR has broadly the same expectations for each type of scheme, the systems and controls put in place by a scheme should be proportionate to its size, scale, nature and complexity, and the amount of resources and support available to the governing body to make changes. There is currently no guidance on how proportionality should be assessed, and you may wish to discuss your approach with your legal advisers. In our view, it may be helpful for governing bodies to consider the following when addressing the new requirements:

- ▶ **Size** – there is an exemption for schemes with fewer than 100 members.
- ▶ **Scale** – larger schemes may have more involved governance frameworks and there might be a lighter-touch approach for smaller schemes.
- ▶ **Complexity** – there might be greater complexity where there are lots of employers or benefit categories, or for schemes with complex investment and funding strategies.
- ▶ **Nature** – different approaches may be taken depending on the status of the scheme (open or closed to accrual) and where a scheme is relative to its derisking journey, and some modules will not apply to DC schemes. Circumstances, such as a challenged covenant or funding position, may also require additional governance in order to support timely decision-making.

# SECTION 4: A SPOTLIGHT ON GOOD GOVERNANCE

**IN PREPARING THIS GUIDE, IT WOULD BE REMISS OF US NOT TO USE THIS OPPORTUNITY TO SHINE A SPOTLIGHT ON AREAS OF GOOD GOVERNANCE WHICH WE FEEL GOVERNING BODIES SHOULD FOCUS ON.**

## CLIMATE CHANGE

The Code's module on Climate Change updates and clarifies TPR's expectations of trustees in relation to climate change. The biggest schemes will likely meet these expectations already, because they either already have had to comply with mandatory Taskforce on Climate-related Financial Disclosures ("TCFD") reporting or will have to comply by October 2022.

For other schemes, the Code will likely mean reviewing and formalising their approach to climate change. This includes having an ESG which ensures they are appropriately identifying, assessing and managing climate-related risks and opportunities to the scheme. As a result, we expect to see all schemes routinely considering climate change when making decisions on covenant, investment and funding matters in future. [LCP's climate change and sustainability insights hub](#) provides a range of resources to help trustees.

The Code may also prompt trustees to consider certain ESG topics at a more granular level than previously. This is because it says the ORA should consider the effectiveness of, and risks arising from, the following areas:

- ▶ How the governing body assesses investment risks relating to climate change, the use of resources and the environment.
- ▶ How the governing body assesses social risks to the scheme's investments.
- ▶ How the governing body considers the potential for depreciation of assets arising from regulatory or societal change.

## STEWARDSHIP

The Code marks an increase in TPR's expectations on stewardship, ie the responsible allocation, management and oversight of capital to create long-term value for members, leading to sustainable benefits for the economy, the environment and society. This reflects a wider industry trend of increasing emphasis on stewardship, in recognition of the vital role it plays in addressing systemic risks which could affect members' pensions such as climate change, biodiversity loss and inequality.

The DWP's recently issued new guidance on stewardship will require trustees to revisit the voting and engagement policies in their Statements of Investment Principles and expand their commentary on these in their annual Implementation Statements. Taken together with the Code, trustees are likely to need to place significant extra focus on stewardship over the next few years, potentially changing trustees' status from passive onlookers and moving towards being proactive in setting the stewardship agenda for their investment managers.

## INCLUSION AND DIVERSITY

In June 2021, TPR published its Equality, Diversity & Inclusion Strategy, which set out how it will embed diversity and inclusion throughout its own organisation and how it intends to support governing bodies to do the same. To assist with developing its strategy, TPR has created the Diversity & Inclusion Industry Working Group with representatives from across the pensions industry, government and other regulators. This working group will input into TPR's strategy and will assist it to deliver what it has set out to achieve. LCP is proud to be a member of this Working Group and is keen to support industry-wide improvements in this area.

Although TPR is not proposing any specific actions for governing bodies to take at this time relating to diversity, the importance of diversity has been consistently raised in guidance. Its 21st Century Trusteeship programme notes "a skilled, engaged and diverse board led by an effective chair" as one of the main things necessary to support good decision-making. We therefore believe that diversity and inclusion is something that all governing bodies should be considering now, and that it is a necessary element of ongoing good governance and robust decision-making.

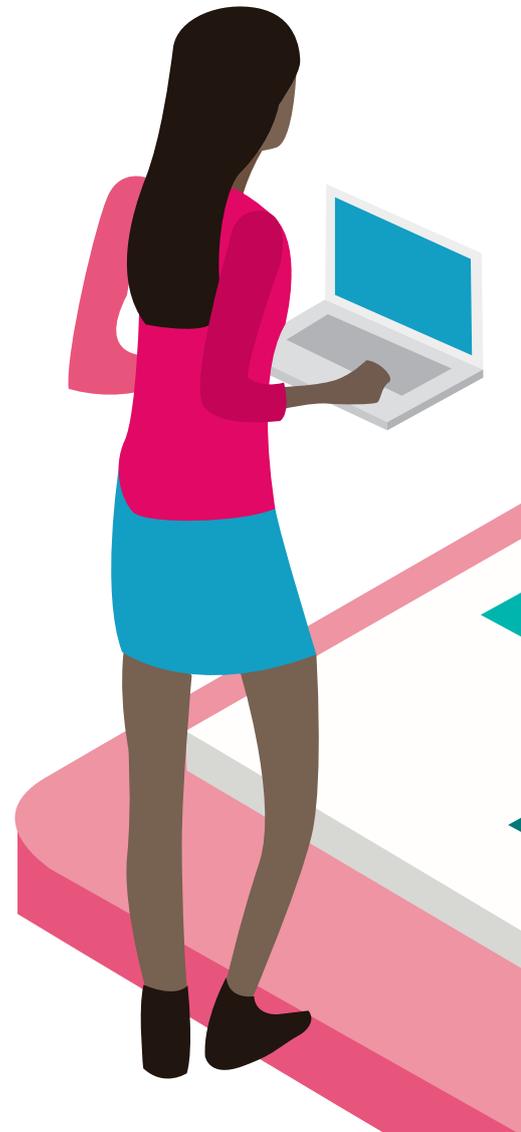
We encourage you to engage with any materials produced by TPR when they are available, and in the meantime refer to the [PLSA's Made Simple Guide on Diversity](#) and [LCP's guide to DEI](#) as helpful resources on how to address D&I on your boards. We also encourage you to explore the wealth of information available on [LCP's Behavioural Insights Hub](#), which contains resources on how to tackle behavioural biases in decision-making.

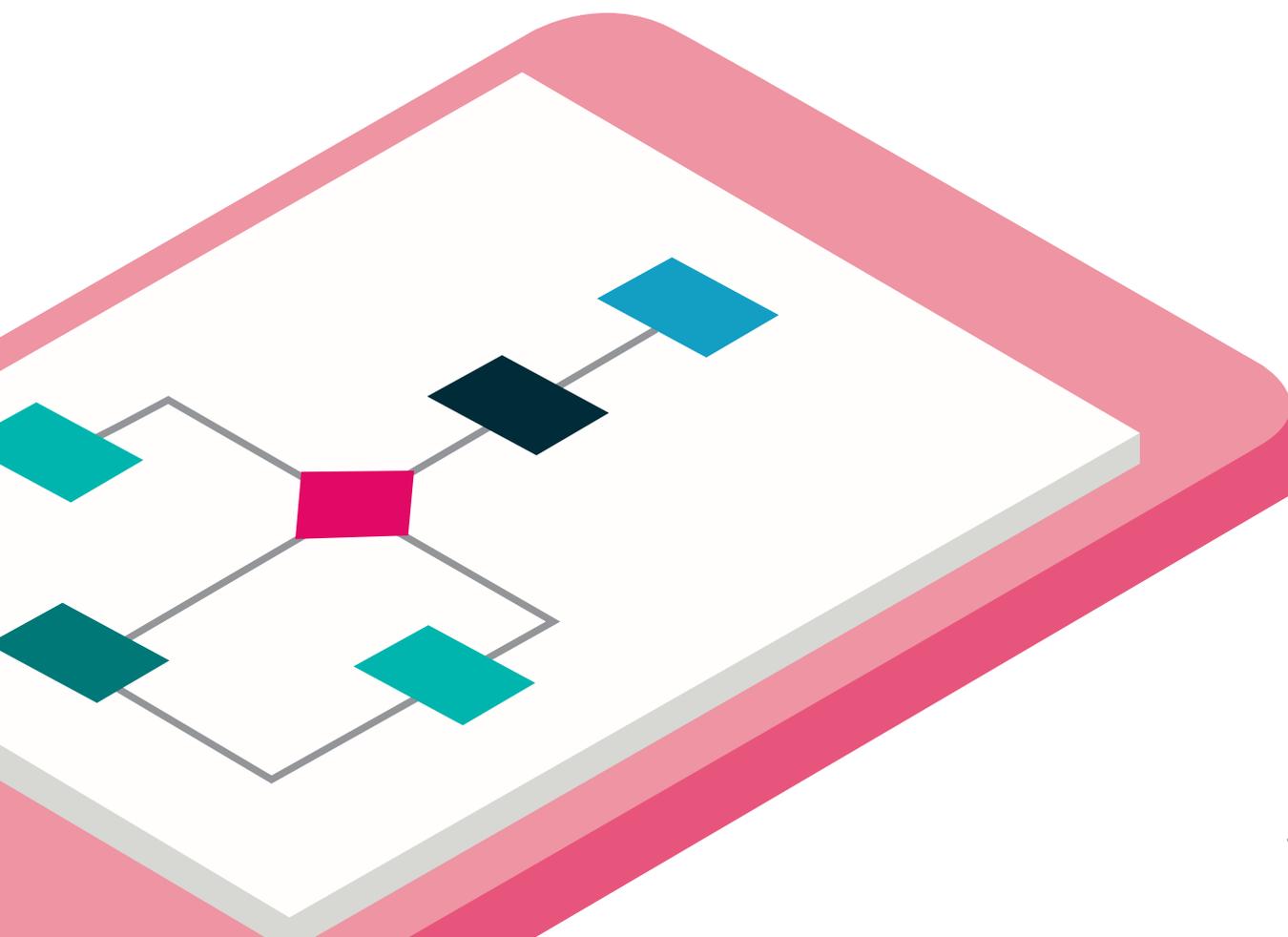
## CYBER RISK

The Code introduces a new module on cyber controls, which follows on from its Cyber Security Principles published in 2018. Technology has moved on since 2018, and the new module is designed to strengthen the previous advice and highlight the Regulator's expectations in this ever-evolving risk area. The module places emphasis on governing bodies seeking specialist advice, and managing and monitoring cyber risk more carefully.

Governing bodies will need to have robust frameworks around managing and monitoring cyber risk, and where appropriate we would encourage governing bodies to work closely with the sponsor's specialist teams. People are likely to be the weakest link in your cyber security defence, and governing bodies should therefore be able to demonstrate that they have had the appropriate training and are mindful of cyber risk in their day-to-day business.

The PLSA has also published Cyber Risk Made Simple, which aims to help trustees in understanding and responding to cyber risk.





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This guide is for information only and is not  
advice about investment and must not be  
relied upon to make any financial decisions.