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Polly Fortune
Department for Work and Pensions' Consultation Coordinator
2nd Floor, Caxton House
Tothill Street
London
SW1H 9NA

By email: reinventing.pensions@dwf.gsi.gov.uk

Dear Ms Fortune

Quality standards in workplace defined contribution pension schemes: call for evidence

ICAEW has carefully considered the opportunity to comment on the consultation paper *Quality standards in workplace defined contribution pension schemes: Call for evidence* published by the Department for Work and Pensions on 4 July 2013, a copy of which is available from this [link](#).

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

This response reflects consultation with the ICAEW Pensions Committee which includes representatives from public practice and the business community. The Committee is responsible for ICAEW policy on pension law issues and related submissions to legislators, regulators and other external bodies.

MAIN POINTS

1. We agree that ensuring the efficient and effective operation of defined contribution pension schemes is important, increasingly so with the roll-out of automatic enrolment. However, the call for evidence was extremely broad covering matters of scheme design (investment default options and scale) and of scheme operation (governance and administration and record keeping) and covering both trust based and contract based schemes, even though there are significant differences in the current regulatory environment, structure and operating practices of these types of scheme. We therefore generally confine our response to what we see as the main points below and look forward to giving more detailed responses as consultations progress in more detail on any given matter.

2. Workplace defined contribution pension schemes are currently subject to a number of initiatives. From our members' perspective, perhaps most significantly, the implications of the recently released revised Code of Practice for trust-based pension schemes and the previously issued associated documents relating to contract based schemes published by the Pensions Regulator ("TPR") are being considered by the industry. The Office of Fair Trading also has the open investigation into the workplace pensions market the findings of this investigation will be likely to have implications for our members roles in workplace defined contribution pension schemes.
3. The ICAEW provided a detailed response to the consultation paper *Regulating work-based defined contribution (DC) pension schemes* published by The Pensions Regulator (tPR) on 28 March 2013 ([ICAEW REP 54/13](#)). We believe that much of our commentary in that response is also relevant to the DWP work. In particular our commentary in that response that the different regulatory and operational environments that trust based and contract based schemes operate under make the development of common governance regimes and therefore quality standards complex. We would urge that more co-ordinated consideration by DWP and TPR be given to the legislative framework for these arrangements and the allocation of responsibilities between the stakeholders. In particular we would welcome the opportunity to provide input as to how the requirements for independent assurance can be built into these arrangements.
4. The stated aim of the proposals is to ensure that workplace pensions deliver a good experience for all their members by establishing minimum statutory standards to which all schemes must adhere. We support the objective but point out the distinction between minimum standards and quality. Compliance with standard requirements may be easy to measure but it is difficult to design standards that are appropriate for all sizes and types of DC scheme, particularly in relation to scheme governance and oversight by trustees, which are key, but also highly subjective. However, the Regulator's six principles for good DC schemes and it's publication of quality features for all DC schemes and the proposed comply or explain regime is a positive step in the right direction.
5. The Regulator's compliance requirements will likely challenge some of the smaller pension schemes previously set up by employers or those with no current pensions arrangements, who may well decide that their members' interests would be better served by one of the major master trust providers. Employers are choosing master trusts because they take care of much of the administration and governance of employee pensions, and can obtain preferential investment management and administration charges due to economies of scale through pooled asset arrangements. However, some master trust structures lack independence, raising concerns about potential conflicts of interest – for example, where trustees, investment managers or administrators are tied to the trust provider. Indeed a lot of master trusts are owned by the providers and therefore they are run for profit. However, it is important that the trustees are acting in the interests of members at all times and are seen to be doing so.

To alleviate some of these concerns, ICAEW is developing, in discussion with the Regulator, a supplement to their AAF 02/07 assurance framework technical release for master trusts which will be published for consultation in autumn 2013 with a view to being introduced in 2014. This type of assurance framework is already used extensively throughout the pension sector for investment providers, custodians and pension scheme administrators to demonstrate that controls are operating effectively

6. There is a risk that some schemes will not seek to go beyond minimum standards, whereas quality means striving for the best possible outcome. Employers and those responsible for the governance and operation of workplace defined contribution pension schemes need to see the statutory minimum as a starting point rather than the goal.

7. There is one point of relative detail which we would like to flag here, namely a particular difficulty with the master trust model in connection with the requirement to providing assurance that correct contributions are being paid and invested on behalf of scheme members. The large number and diversity of definitions of contributions based on different definitions of pensionable salary for large numbers of unconnected employers is a particular issue for master trusts. There is currently a lack of clarity of the roles and responsibilities of employers and trustees in ensuring the correct contributions are paid and appropriate data is maintained in order to check the accuracy of contributions. This lack of clarity is consequently proving an issue for audit firms who are appointed as statutory auditors and are required to give an opinion about the contributions paid to the master trust. The ICAEW is considering this matter in more detail but we anticipate that we would like to enter into further dialogue with the DWP in this area in due course to discuss how a regulatory framework may assist in clarifying roles and responsibilities for employers, trustees and auditors.

As noted above, we have at this stage generally restricted this response to our high level comments above. ICAEW looks forward to playing a part in the continued debate in relation to establishing an appropriate regulatory and governance framework for the workplace defined contribution market. In particular we look forward to providing input into how independent assurance can play a part in ensuring good outcomes for all stakeholders.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

Charles Worth
Manager, Company Law, Insolvency & Pensions

T +44 (0)20 7920 8753
E Charles.worth@icaew.com