

IAPF PENSION SCHEME TRUSTEE TRAINING

TRUSTEE REFRESHER COURSE

PART 1

11 June 2020

HOUSEKEEPING

- Event Format
- Q&A Use raise hand function in participants icon. Chair will take note and then will ask you by name to ask your questions in turn. State who the question is for
 - CPD and Certificate available only to those who complete part 1&2 of the course
 - If having tech issues contact info@iapf.ie or call 087 613 7351
 - Virtual Event Guide (Kelley)

WELCOME & INTRODUCTIONS



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APT Workplace Pensions



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AGENDA - REFRESHER TRUSTEE TRAINING

Today Part 1 – 11 June 2020

- **Trustee Governance**
 - Trustee Duties – A recap
 - Legislation and good governance
 - IORP II – Pensions Authority Guidelines

Part 2 – 18 June 2020

- **Covid 19 - Pensions Authority Guidelines**
- **Investment**
 - Statutory Responsibilities
 - Fundamentals
 - Changing Environment
 - Volatile Markets - Crisis Management
- **Mobile Workers Directive**
- **Recent Case Law**

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TRUSTEE DUTIES – A RECAP

MAIN TRUSTEE DUTIES

- Act in accordance with the Trust
- Act prudently, carefully, honestly and in good faith
- Act in best interests of beneficiaries
- Take advice on matters where not experts
- Invest funds properly

Trustee responsibilities under trust law

- Carry out the trust in accordance with the law and the terms of the trust deed and rules
- Act in the best interests of the beneficiaries
- Treating all beneficiaries fairly
- Act prudently and diligently
- Exercise care and good faith when carrying out your duties
- Supervise delegated functions
- Be aware of possible conflicts of interest
- Treat all information in the strictest confidence and using it only for its intended purpose
- Seek professional advice if necessary
- Do not profit from the trust

Trustee responsibilities under the Pensions Act

- Ensure contributions are received & invested without delay
- Make arrangements for paying benefits
- Keep accurate records
- Take trustee training
- Appoint a registered administrator
- Preserve or transferring benefits
- Ensure the minimum funding standard is met (DB)
- Provide information
- Ensure the pension scheme complies with equality laws
- Register the scheme with the Pensions Authority
- In the event of a wind-up, distribute the resources of the scheme.

TRUST DEED AND RULES

Legal Obligation

Trustees Should; Read & Understand

- Trust Deed & Rules
- Members Booklets
- Trustee Annual Report & Accounts
- Actuarial Valuations
- Investment Reports
- Administration Reports



ALSO

- Pension Authority – Guidelines
- Revenue – Practice Notes

GENERAL TRUST LAW

- Numerous Fiduciary Duties
e.g. Duty of Confidentiality
- Standard of Care

SEEKING PROFESSIONAL ADVICE

Good Practice & Legal Requirement

- Trustee Training
- Legal Advice – Vast List
 - Scheme Amalgamation
 - Augmentation
 - Payment of Death Benefits
 - Rule Amendments



TRUSTEESHIP

- Personal Role
- Onerous Responsibilities
- Potential Liability

PERSONAL LIABILITY

Biggest Risk?

- Breach of Trust...For e.g. - Fails to Perform Duties
 - Acts inconsistently with Trust Documents
- Lack of Understanding by Trustees

BREACH OF TRUST

Trustee is:

- Liable for Own Breaches
- Not Liable for Breaches - Co Trustees
- Not Liable for Breaches – Before Appointment
- Not Liable for Breaches - Of Successors
- In Retirement?
- After Death?

PROTECTION FROM LIABILITY

- Trust Deed
 - Exclusion Clause
 - Indemnity Clause
 - Principal Employer
 - Associated Employers
 - Assets of the Scheme
- Insurance?

Legal sanctions for non-compliance

Offences Under the Pensions Act

Court Proceedings

- Summary Offence-Fine up to €5,000

- Indictable Offence-Fine up to €25,000



Enforcement of fines

Failure By Trustees.....For E.g.;

- Register Pension Scheme
- Disclose Information
- Attend Trustee Training

Failure By Employer.....For E.g.;

- To Provide Information to Pension Authority
- Disclose Information to Members Re Contributions

TRUSTEE DUTIES – A RECAP

Q&A

Raise your hand. Chairperson will take note of your name and when ready will ask you by your name for your question. Unmute your sound at this point. Please state who the question is for.

LEGISLATION

REVENUE COMMISSIONERS

Approved Schemes Benefit from Tax Exemptions

- Employer
- Employee
 - No BIK
 - Relief on personal contributions made within allowable limits
 - Tax free growth on investments
 - Lump sum at retirement
- Death Benefits



REVENUE LIMITS ON BENEFITS

- Standard Fund Threshold
- Normal Retirement Date (NRD)
- Salary
- Pension
- Lump sum
- Early Retirement
- Death Benefits
 - In service
 - In retirement
- Pension Increases - DB



REVENUE LIMITS ON BENEFITS (cont.)

- Annual Earnings Limit - €115,000
- Standard Fund Threshold - €2,000,000
- Retirement Lump Sums - First €200,000 - Tax Free
- Next €300,000 - Standard Rate
- Balance - Marginal Rate

- ARF Rules extended to DC Scheme 2011

THE PENSIONS AUTHORITY

- Previously known as “The Pensions Board”
- 3 Members
 - Chairperson
 - Representative of Dept. of Social Protection
 - Representative of Dept. of Finance
- Its Chief Executive is known as The Pensions Regulator



An tÚdarás Pinsean
The Pensions Authority

MAIN FUNCTIONS OF PENSIONS AUTHORITY

- To monitor and supervise operation of Act
- Implement and Supervise EU Legislation (IORP Directives)
- Issue guidelines to trustees of occupational pension schemes
- Issue guidelines to PRSA providers
- Encourage training for trustees
- To Register Administrators and supervise (1.11.08)
- Provide information to members on their rights



An tÚdarás Pinsean
The Pensions Authority

MAIN FUNCTIONS OF PENSIONS AUTHORITY

Also

- Register Schemes and collect fees
- Register PRSA's and collect fees
- Investigate complaints
- Monitor Funding Standard (DB)



An tÚdarás Pinsean
The Pensions Authority

REGULATORY ACTIVITIES

Key Areas

- Registration
- Payment of fees
- Equal treatment
- Compliance, for example
 - Disclosure of information
 - Funding standard (DB)
 - Trustee Training
 - Member Nominated Trustee Election



An tÚdarás Pinsean
The Pensions Authority

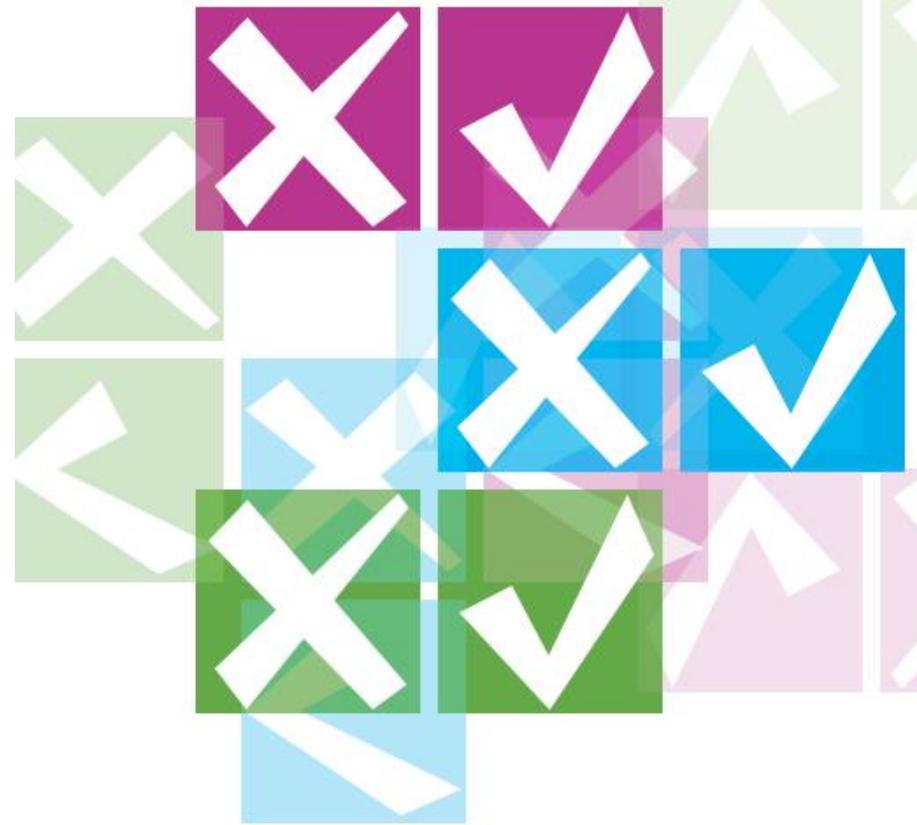
INVESTIGATIONS

- Pensions Authority has very strong powers
- Regular – Proactive
 - Arising from complaints & audits
- Whistle blowing – Reactive
 - Mandatory for fraud and misappropriation
- ‘Dawn Raids’
 - A Possibility!

On the spot fines

Social Welfare and Pensions Act 2007

- 17th September 2007- €2,000
- Pension Authority-Notification of Breach
 - Trustees -21 Days
 - Remedy Breach
 - Pay Fine



Pensions Board
Trustee and Employer Checklists
On-the-spot fines



Pensions Board **Trustee** Checklist

On-the-spot fines

Are you a pension scheme trustee?

If you are, you should be aware that you may be liable to an 'on-the-spot' fine from The Pensions Board if you contravene the specified provisions of the Pensions Act, 1990, as amended ('the Act'). The fines provisions commence on 17 September 2007. The fine for each offence is €2,000.

The following checklist will help you to ensure that you do not contravene any of the specified provisions subject to the fines regime. The words in italics are explained in the Glossary of Terms at the end of this document.

	Yes	No
1 Is your scheme registered with The Pensions Board?	<input type="checkbox"/>	<input type="checkbox"/>
■ Are your scheme details up to date?	<input type="checkbox"/>	<input type="checkbox"/>
■ Have you paid your scheme's annual fees to the Pensions Board?	<input type="checkbox"/>	<input type="checkbox"/>
2 In relation to your scheme, can you comply with the <i>disclosure of information</i> requirements applicable to the:		
■ Governing documents	<input type="checkbox"/>	<input type="checkbox"/>
■ Trustee Annual Report	<input type="checkbox"/>	<input type="checkbox"/>
■ Audited accounts	<input type="checkbox"/>	<input type="checkbox"/>
■ Actuarial valuation report	<input type="checkbox"/>	<input type="checkbox"/>
■ Members' explanatory booklet	<input type="checkbox"/>	<input type="checkbox"/>
■ Relevant individuals		
□ During relevant employment (benefit statements)	<input type="checkbox"/>	<input type="checkbox"/>
□ On leaving service	<input type="checkbox"/>	<input type="checkbox"/>
□ On retirement and death	<input type="checkbox"/>	<input type="checkbox"/>
□ Where a scheme winds up	<input type="checkbox"/>	<input type="checkbox"/>
□ Where a <i>Pension Adjustment Order (PAO)</i> has been made in respect of a member's benefits	<input type="checkbox"/>	<input type="checkbox"/>
3 Have you responded to any requests for information about your scheme that you may have received from any of the following:		
■ The Pensions Board?	<input type="checkbox"/>	<input type="checkbox"/>
■ your scheme auditor?	<input type="checkbox"/>	<input type="checkbox"/>
■ your scheme actuary?	<input type="checkbox"/>	<input type="checkbox"/>
■ any employer to whom your scheme relates?	<input type="checkbox"/>	<input type="checkbox"/>
4 If your scheme is <i>defined contribution</i> , have you arranged for the annual valuation of its assets and liabilities?	<input type="checkbox"/>	<input type="checkbox"/>
5 If your scheme rules provide for you to invest the resources of the scheme in accordance with the members' directions, are you providing those members with information to enable them to make informed decisions with regard to the giving of their directions?	<input type="checkbox"/>	<input type="checkbox"/>

	Yes	No
6 If your scheme is <i>defined benefit</i> , have you submitted an <i>Actuarial Funding Certificate (AFC)</i> to The Pensions Board:		
■ within 9 months of the effective date of the actuarial valuation?	<input type="checkbox"/>	<input type="checkbox"/>
or		
■ where the AFC is due because of a negative intervalation statement in your annual report, within 12 months of the last day of the period to which the annual report relates?	<input type="checkbox"/>	<input type="checkbox"/>
7 Have you procedures in place within your scheme for paying or accepting transfer payments where a member has requested same?	<input type="checkbox"/>	<input type="checkbox"/>
■ Are you providing <i>Statements of Benefits</i> to any members of your scheme who are transferring funds to a <i>Personal Retirement Savings Account (PRSA)</i> ?	<input type="checkbox"/>	<input type="checkbox"/>
8 Have you a current <i>Statement of Investment Policy Principles (SIPP)</i> in place for your scheme? (Not required for small schemes.)	<input type="checkbox"/>	<input type="checkbox"/>
9 Do you comply with the provisions of the Act when calculating a pension increase involving a State pension offset?	<input type="checkbox"/>	<input type="checkbox"/>
(Re. Qs 2, 3, 4, 5, 6 and 9, please see Notes below.)		

Notes: Trustee Checklist

- Re. Qs 2, 3, 4 and 5.** Detailed information about the *disclosure of information* requirements can be found in The Pensions Board Guidance Notes on **Disclosure of Information by Occupational Pension Schemes**. The Board also produces an information booklet **What Do You Know About Your Pension Scheme?** This contains an overview of the information which trustees and employers must provide in relation to occupational pension schemes. The Guidance Notes and information booklet are available free of charge from the Board's Information Unit.
- Re. Q. 6.** Trustees of a *defined benefit* scheme must ensure intervalation reviews are carried out to determine whether the scheme continues to satisfy the funding standard and that corrective measures are undertaken if a negative assessment arises. Trustees must notify The Pensions Board if the actuary states in the annual report that the scheme would not satisfy the funding standard or where no statement is made. In such circumstances the trustees must have a full *Actuarial Funding Certificate (AFC)* prepared [and where relevant a funding proposal] which must be submitted to The Pensions Board within 12 months of the last day of the period to which the annual report relates.
- Re. Q. 9.** The Act provides that, where trustees increase a pension payable under a scheme, the calculation of the amount of which involves an offset in respect of a State pension, they shall not calculate the increase by reference to an updated State pension offset, the amount of which depends on the amount of a State pension at, or during a period up to, the date the increase to the scheme pension is calculated or made but must instead calculate the increase by:
 - calculating the amount of the scheme pension notional payable immediately before the increase if the amount of State pension offset had at all times been nil;
 - calculating the percentage by which the scheme pension would be increased if the amount of State pension offset continued to be nil; and
 - increasing the scheme pension actually in payment by that percentage.

If you find that there are matters outstanding in relation to fulfilling your obligations as specified in this checklist, you should bring these to the attention of your scheme's administrator without delay in order to ensure full compliance. This checklist is intended as a guidance tool only and is not intended to be an exhaustive list of trustee obligations. If you have any difficulties, you can contact The Pensions Board at info@pensionsboard.ie

INCREASING REGULATORY ENVIRONMENT

- Pensions Authority – DC Governance Codes 2016 ✓
- Pension Reform Consultation 2016 ✓
- April 2018 - A Roadmap for pensions reform 2018 – 2023 ✓
- GDPR May 2018 ✓
- IORP II January 2019 – LATE – To be transposed 2020?

THE PENSIONS AUTHORITY CODES OF GOVERNANCE DC SCHEMES

The Codes introduced in 2016 are intended to provide trustees with guidance on **minimum standards** across 11 key areas of best practice.

With the impending implementation of the EU Directive IORP II it is likely that the Status of the Codes of Governance will change from “aspirational” to being a legal requirement.

Trustees may be required to submit an annual compliance return confirming they are adhering to the codes of practice and will be subject to compliance audits by the Pension Authority.

STATUS OF CODES OF GOVERNANCE

The codes of governance are not a statement of law but set out the standards of behaviour that the Pensions Authority would expect trustees to adopt to demonstrate their commitment to serving the best interests of members, deferred members and other beneficiaries.

Pension scheme governance

Pension scheme governance means trustees managing and overseeing the proper:

- Compliance with regulatory requirements;
- Investment of the scheme's assets;
- Collection of contributions;
- Payment of benefits;
- Record keeping;
- Communication of information to members.

The Pension Authority expects Trustees to establish a Governance “**Plan of Action**”

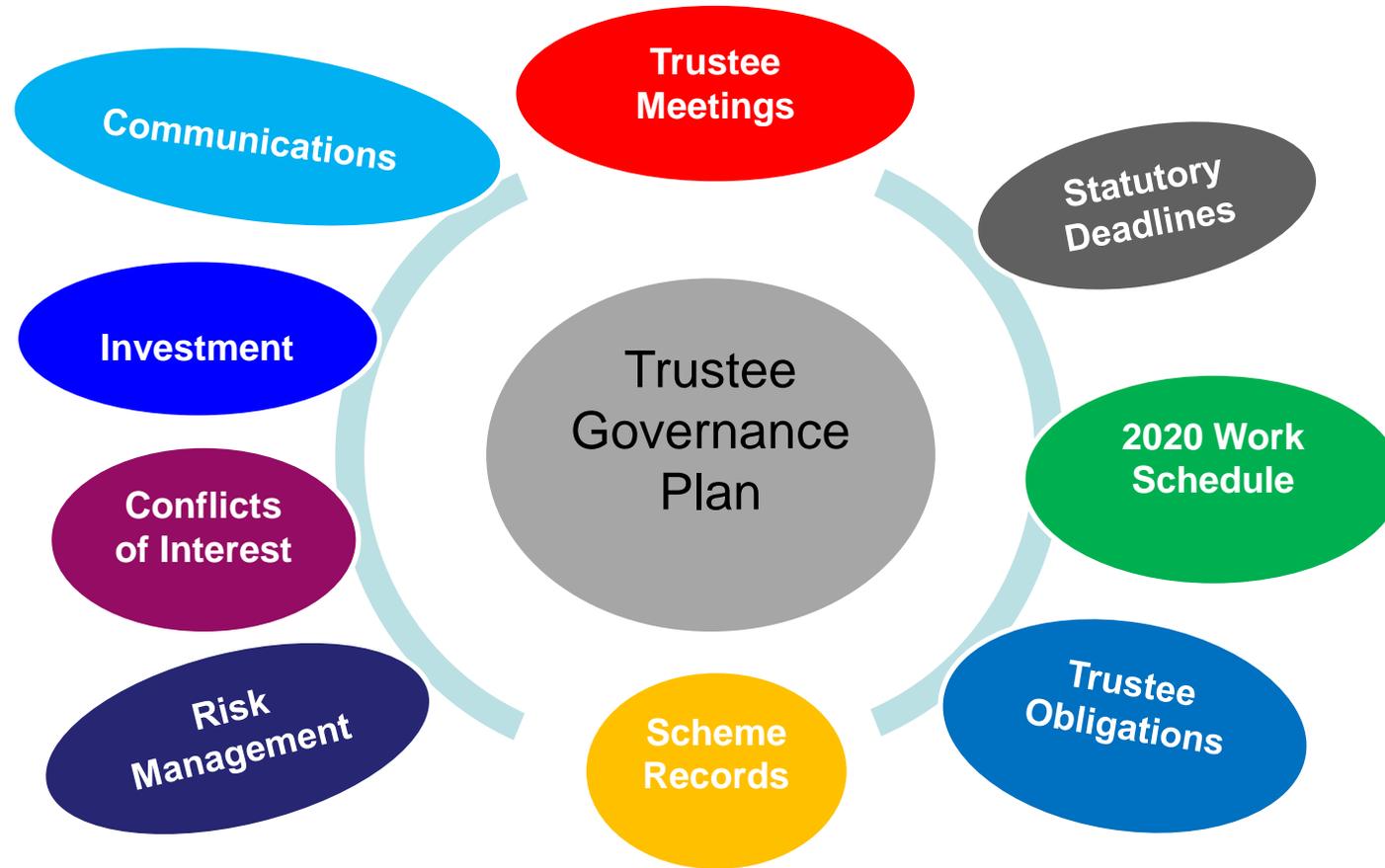
“To help Trustees to develop and apply consistent policies, processes and controls in the management of their scheme”

Code 1 - Establishing a Governance plan

Trustees should establish a governance plan of action that will best organise them to fulfil their duties to their members. This includes putting in place structures that will:-

- Ensure compliance with statutory deadlines
- Identify what records need to be kept
- Develop a risk management plan
- Identify Conflicts of Interest
- Establish a Service Level Agreement

Governance plan of action



Code 2 - Trustee meetings

The trustee board should meet as often as is necessary to fulfil its responsibilities effectively and prudently. Under the IORP II Directive the proposed requirement is that Trustees meet at least four times per calendar year and at least once in every six-month period.

The Authority expects trustees to be organised and to follow agreed procedures and processes. This means holding formal meetings with proper agendas which deal with all important issues and record decisions appropriately. The action items include:-

- Appointing a Chairperson
- Ensure a quorum is present for trustee decisions to be valid
- Check whether trustees must act unanimously or by majority vote
- Keep detailed minutes



Code 3 - Conflicts of interest

Trustees should be able to demonstrate that they effectively manage conflicts of interest.

The Code suggests that Trustees should prepare a conflicts of interest policy that includes the following:-



- Maintain a register of trustees' interests which could give rise to a conflict.
- Each trustee should sign an annual return confirming that their information contained in the register of interests is correct. The updated register should then be circulated to all trustees.

- Once a conflict has been identified, the trustees must consider how it should be dealt with before conducting any further business to which the conflict might be relevant.

The Pensions Authority guidance note identifies that conflicts of interest can arise where trustees are also directors of the sponsoring employer company, that some trustees may have a perception that they represent one faction of membership and that advisors may also be conflicted.

It is important that all potential conflicts are identified and included on the register of trustee interests together with any other potential conflicts of interest, this should be reviewed on a regular basis and included in the scheme risk management plan.

Code 4 – Collection and Remittance of Contributions

Code 4 sets out the following actions for trustees:-

- Prepare and maintain a payment schedule. Include details of absences, AVC payments and where no contributions are being made etc.
- Ensure the correct level of contributions have been recorded and are being paid.
- Ensure an adequate system is in place for the prompt recording, processing and reconciling of all transactions.
- Ensure relevant procedures are covered in the SLA with the administrator.

- Encourage periodic meetings between payroll administrators and scheme administrators to ensure alignment of their respective activities.
- Take steps to recover and remedy missed or late payments quickly and efficiently.
- Report any material payment failures to the Authority within a reasonable timeframe. The Authority considers that in general this should be no later than 3 months after the first incidence of non-remittance.
- Ensure members are also informed of any material payment failures.

Ongoing monitoring and reporting is required to ensure that contributions have been invested in-line with the member's instructions and that contributions have been invested with in the required deadlines.

Code 5 - Investing scheme assets

The Pensions Authority expects that when setting an investment strategy trustees should ensure that the investment options offered reflect the needs of the membership and that this should be reviewed on an ongoing basis.



Particular emphasis is placed on the need to ensure that the default investment strategy is suitable based on the requirements and demographic profile of the members.

The Pensions Authority have also identified member communication as a very important area..

Member choices are significantly influenced by how the choices are presented to them - which funds are available, and how these choices are explained and positioned. It is the responsibility of trustees to satisfy themselves that the communication is relevant and understandable

The Code of Governance sets out the following actions for trustees:-

- Ensure procedures are covered in the SLA with the investment manager. This would include requirements for manager reporting, frequency and content including reporting to trustee meetings.
- Develop and adopt an appropriate investment strategy ensuring that investment choices are regularly reviewed and are appropriate for members. Ensure all such reviews are fully documented.
- Produce a SIPP, if appropriate.
- Provide a SRP at least annually, if appropriate.

- Ensure the performance of all investment options are regularly assessed against the investment objectives.
- Provide a default investment strategy (DIS) that reflects the profile and needs of the scheme membership.
- Meet with the investment manager (if appointed) as required, but at least once a year.
- Agree performance benchmarks.
- Periodically review the performance of the investment managers and if necessary replace them.
- Review SIPP In line with legislation and whenever there has been a significant change in the investment policy.
- Review Default Investment Strategy regularly and monitor its ongoing suitability for the membership.

Code 6 - Paying benefits

The Code of Governance sets out the following actions for trustees:-

- Ensure procedures concerning payment of benefits are documented in SLA with administrator.
- Ensure appropriate taxation procedures are in place.
- Check if a PAO is in place for members benefits.
- Ensure satisfactory arrangements exist to notify members of their benefit entitlements on leaving service.
- Ensure proper financial records are kept up to date.
- Receive annual report from scheme administrator.
- Monitor benchmarks set in SLA.
- Periodically review scheme practices.

Code 7 - Record Keeping

Trustees should ensure that there are suitable procedures and controls in place in order to facilitate the creation and retention of accurate and complete membership and financial records by them or on their behalf.

In addition, trustees are required to comply with the disclosure requirements under the Pensions Act; they can only discharge these obligations if proper records are kept.

Agree details of records to be kept.

- Ensure that a Registered Administrator is in place.
- Agree who should hold the records.



- Agree process of interaction between employer, trustees, administrators and members for data transfer.
- Establish a register of members, deferred members, pensioners and other beneficiaries and consider carrying out occasional data verification exercises to ensure you have up to date details of all members.
- Keep records of members' choices regarding the level of their contributions and the funds in which they wish to invest and ensure that robust controls are in place for the processing of DC contributions to ensure that contributions are allocated correctly and that investment transactions are actioned promptly and recorded accurately.

Establish a robust process for keeping track of deferred members e.g. put procedures in place for capturing updated contact details.

This could include:

- Reminding members to inform trustees of their new contact details if they change;
- Using alternative methods to contact members such as mobile phone and email;
- Where members cannot be found, consider using other options such as social media, the electoral register and current or former scheme members who may have kept in contact with the relevant member to locate the member;

and

- Where members cannot be found and all other avenues have been exhausted, consider using the Host Mailing Service of the Department of Social Protection

- Keep it accurate, complete and up-to-date
- Ensure that it is adequate, relevant and not excessive;
- Retain it for no longer than is necessary for the purpose or purposes; and
- Give a copy of his/her personal data to an individual, on request.

Trustees should also ensure that any agents processing personal data on behalf of the trustees (a data processor) are aware of and comply with the obligations outlined above.

Code 9 - Risk Management

The Pensions Authority expects trustees to have a risk management system in place for their scheme which includes strategies, processes and a risk register to record all scheme risks.



The risk register should be reviewed and updated at least annually by undertaking a risk assessment which identifies the main risks, the likelihood of their occurrence, the impact of their occurrence and examines how the scheme should limit or mitigate the risk.

Trustees should ensure that they record how they intend to manage any potential risk and recording the risks should assist trustees to formalise their risk management procedures. Trustees should use various sources such as audit reports, administration reports and any complaints received in order to assist in identifying risks present in their scheme.

- **Identify the greatest risks.**

These may vary from scheme to scheme but the greatest risks for a typical DC scheme and its members include:

- Fraud;
- Investment;
- Managing costs;
- Administration;
- Regulatory requirements; and
- Communications.

- **Assess risk likelihood.**
Although it is rarely possible to put a meaningful numerical value on any risk, trustees should at least be able to assess likelihood as high, medium or low.
- **Assess Impact.**
Trustees should make a broad estimate of the likely impact on the scheme and its members in the event that the risk materialises.
- Once risks are identified, record them in a risk register.



Document current controls and planned controls to limit/mitigate risks.

- Identify ownership of risks and controls.
- Continue to review exposure to new and emerging risks.
- Consider if an internal audit of risk management processes should be carried out.
- Consider whether Risk Management should be a standing agenda item for discussion at trustee meetings.
- Review and update the risk register on an annual basis.

Code 10 - Member Communications

- Consider the profile of the scheme membership and develop a communication plan to meet the members needs
- Remind members about the importance of reviewing investment choices
- Remind members about the adequacy of their retirement savings
- Plain language – no jargon

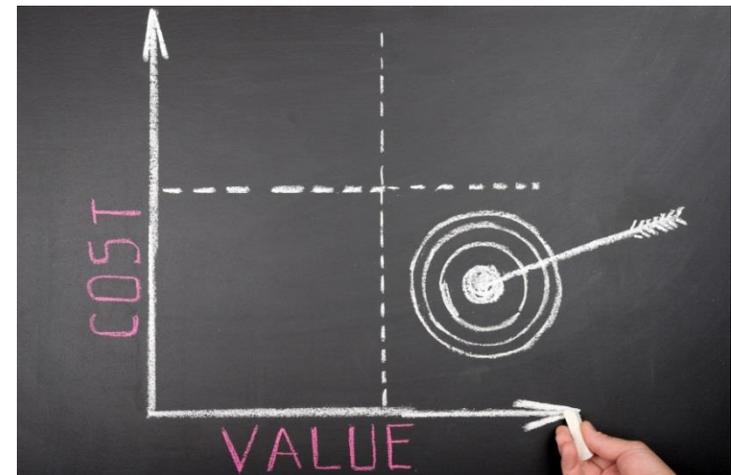


- Consider the use of technology in meeting the objectives of communication
- Consider access to independent financial advice for members
- Get member feedback regarding the quality of member communications



Code 11- Value for Money

- Ascertain which charges apply to the scheme, the rates applicable and their impact on members benefits
- ensure that all costs and charges that are borne by the members are clearly disclosed to them
- Evaluate the total benefits against the total cost of membership particularly in relation to what members value most
- Discuss VFM at Trustee meetings
- Raise issues and concerns with service providers
- Take action where VFM is not being achieved



LEGISLATION

Q&A

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IORP II – PENSIONS AUTHORITY GUIDELINES

IORP II Considerations for Trustees – The Pensions Authority

Background

The IORP II Directive was required to be transposed into Irish law, and the laws of all EU Member States, by 13 January 2019.

Ireland is in breach of these regulations.

It had been intended that Ireland would have transposed the IORP II regulations into Irish law by the end of the first quarter 2020 but this has not happened.

The Directive provides for EU wide pension scheme standards including:

An effective system of governance, covering areas such as;

- fit and proper standards for trustees;
- the appointment of Key Function Holders (KFHs) for risk management, actuarial and internal audit;
- written policies on risk management, internal audit, and, where relevant, actuarial and outsourced activities, and
- standards relating to internal controls, administrative and accounting procedures, contingency plans and remuneration.
- Communications with, and information to be provided to active members prospective members, deferred members, those nearing retirement and pensioners.

The Directive also covers the general principles of prudential supervision with an emphasis on a forward looking and risk-based approach, with greater interventionist powers available to the regulator, including a reach to outsourced service providers.

Governance

While many of the scheme's activities, such as administration and investment management, may be outsourced, the trustees remain responsible for those activities and their governance systems must ensure proper oversight.

The Pensions Authority will oversee the extent and quality of a scheme's governance.

Particular areas of focus will include:

- the composition of the trustee board including the procedures and processes it adopts in fulfilling its role and objectives;
- the policies in place relating to the range of scheme activities, including internal controls, and the management of risks; and
- the practical application of the agreed policies, procedures and operating principles.

The Authority expects that all significant activities should have documented policies and procedures, the rationale for the various decisions should be recorded and all material should be retained and available for inspection and audit by the Authority.

Role of the trustee board

The trustee board is responsible for the effective, prudent and ethical oversight of the management of the scheme. Within its governance responsibility, amongst other things, is a requirement to set and oversee:

- an overall transparent operational structure for the scheme;
- an appropriate investment and funding structure;
- an adequate and effective internal control framework, that includes well functioning risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework;
- a remuneration framework that is aligned with the objectives and risk strategies of the scheme;
- effective communication and reporting processes for members and beneficiaries.

The trustee board should consider the production of a Board Manual, which would fully document its roles and responsibilities, its policies and procedures, and a schedule of review dates – a record should be kept of each such review.

The trustees should have:

- the necessary knowledge, skills, experience, expertise, competencies, fitness, probity and integrity to carry out their duties;
- a full understanding of their individual and collective responsibilities;
- a full understanding of the nature of the scheme's activities and management; and
- an understanding of the scheme's financial position, risks and technical provisions.

Composition of the trustee board The trustee board should be of sufficient size and expertise to oversee adequately the operations of the scheme. While a sponsoring employer may be responsible for the appointment of trustees, the trustee board should satisfy itself that the trustees, including any potential new trustee prior to his or her appointment, collectively meet the fit and proper standards and should document how it has satisfied itself in this regard.

Trustee boards should consider reviewing their membership at least once every three years. This review, which should be documented, should take into consideration:

- the ability of individual trustees to devote the necessary time and attention to the role;
- possible conflicts of interest of its members, and whether they can be managed;
- the balance of experience and expertise.

IORP II - Fit and proper requirements

The Directive requires that trustees and Key Function Holders (KFH) meet fit and proper criteria.

Key Functions

The trustee board must ensure that there is a risk management function, an internal audit function, and for defined benefit schemes, an actuarial function.

The trustee board must ensure that the holders of each of these key functions (a Key Function Holder or KFH) have the resources and authority to enable them to undertake their duties effectively in an objective, fair and independent manner.

In addition, the trustee board must ensure that they receive timely, accurate and sufficiently detailed information from KFHs and to document its key information requirements from each KFH for consideration at each meeting of the trustee board.

IORP II - Fit and proper requirements

The Directive requires that trustees and Key Function Holders (KFH) meet fit and proper criteria.

“**Fitness**” means that the trustees as a group, and each person appointed as a KFH, has the necessary qualifications, skills and experience to perform the duties of that position.

The Pensions Authority expects trustees to have conducted and documented its own due diligence, including obtaining evidence of professional qualifications, CPD and previous experience, before a person is appointed as a trustee or KFH.

IORP II - Fit and proper requirements

“**Proper**” means that each trustee and KFH must be honest, diligent and independent-minded.

Much of an assessment of a person’s character, in terms of them meeting the “Proper” requirement, can only be undertaken in the case of exceptions, i.e. it is only when evidence is available to suggest that a person might not comply with the standard required, that a scheme must investigate thoroughly.

Other Areas covered in the Pensions Authority Guidance Note

- **Meetings** – refer to DC Codes of Governance
- **Committees of the Trustee Board** - refer to DC Codes of Governance
- **Governance and Scheme Management**
 - Scheme Administration – The Trustee board should have in place an administration policy which documents the administration activities, their delegation and monitoring. At a minimum, the policy should address the following matters:
 - each of the main administration activities the approach to determining how they should be carried out,
 - the procedures for appointing administrators, where relevant,
 - the information to be provided by the administrator to the trustees, and
 - the procedures for assessing and reviewing the performance of the administration.

There should be documented evidence of adherence to the administration policy – **A service level agreement**

Risk management

The risk management policy should set out the methods adopted to identify the most significant risks to which the scheme is exposed and how the risk appetite of the scheme will be agreed for both individual and scheme risks.

The processes governing the periodic Own-Risk Assessment should also be documented.

The risk management policy should be reviewed at least every three years following a comprehensive Own Risk Assessment.

Comprehensive risk management should include the development of contingency plans in areas where the scheme is likely to be especially vulnerable.

DC Codes of Governance set out the requirement for a Risk Register

Internal Control

The scheme's internal control procedures should at a minimum provide for documented evidence of the following:

- Procedures providing for segregation of financial activities to reduce the likelihood of deliberate fraud. This would include the segregation of principal duties such as:
 - custody of assets
 - authorisation and approval of transactions
 - reconciling or reporting of transactions
 - data security.
 - financial record keeping procedures;
 - physical control over financial records;
 - clear lines of authority and reporting;
 - independent checks, including periodic reviews of all financial reports and filings;
 - a robust and independent internal audit process.

Outsourced Activities

The trustees should be able to demonstrate that they;

- have developed a policy for the extent to which scheme activities should be carried out in-house or outsourced to third parties;
- have developed an appropriate specification for the activities to be outsourced and the obligations of the service provider
- have gone through an appropriate process for the selection of the service provider;
- are monitoring the activities of the service provider on an ongoing basis to ensure its proper functioning;
- have a written agreement in force which is legally enforceable and defines the rights and obligations of the scheme and service provider;
- notify the outsourced activity to the Authority in a timely manner, or in advance where the activities relate to key functions or the management of the scheme; and has enabled the Authority to request information directly from the service provider.

Remuneration

The trustee board must have a documented remuneration policy governing the remuneration of trustees, KFHS, critical service providers and any other people or organisations of significant importance to the scheme. The policy must be designed to ensure that the scheme's remuneration practices do not create conflicts of interest and do not promote excessive risk taking

Supervision

The Pensions Authority will be adopting a forward looking and risk based approach to supervision, which focuses on the risks of non-compliance and poor member outcomes. A key trigger for this approach will be an assessment of the overall governance culture within the scheme.

IORP II – PENSIONS AUTHORITY GUIDELINES

Q&A

Raise your hand. Chairperson will take note of your name and when ready will ask you by your name for your question. Unmute your sound at this point. Please state who the question is for.

THANK YOU SPEAKERS AND DELEGATES

- Fill in evaluation form – link emailed after event
 - CPD & Cert by email at end of Part II
 - Presentation will be emailed to you
- Recording of course available to you on request

Join us for Part 2 – 18 June 2020

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