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Lord McKenzie

14 August 2018

Dear Bill,

I am writing to you on matters raised during the consideration of the Occupational Pensions (Master Trusts) Regulations 2018 by the Grand Committee on 18th July. I would also like to take this opportunity to thank you for your insightful contributions to what was a very constructive debate.

Amendments to the Companies Act and scheme funders

You asked why we are amending the Companies Act and how this relates to financial sustainability. The amendment to the Companies Act 2006 in regulation 30 prevents any scheme funder for a Master Trust scheme from taking advantage of either the small or medium companies regime, which permit streamlined accounts. This means the scheme funder will have to produce full accounts and provide them to the Regulator allowing an informed decision on the suitability of the funder to be made.

By amending the Companies Act rather than setting out the obligations in the regulations we are making it clear to both schemes and auditors that these requirements sit within the accounting framework and that no extra burdens will be placed on auditors. In addition, auditors will already be familiar with the relevant sections of the Companies Act.

This reflects concerns raised in responses to the consultation on the regulations that auditors may have to make statements about the funder over and above those required by the requirements of the Auditor's report. We wanted to clarify that this was not the case.

Connected employers

You also asked for clarification on the nature of connected employers. Section 1(3) of the Pensions Schemes Act 2017 and Regulation 3 outline when employers can be considered connected. This includes group undertakings and companies involved in joint ventures. Having all participating employers within the same sector will not, by itself, be enough to ensure that these employers will be connected.

The IORP II Directive and the Regulations

You asked for an update regarding the requirements of the IORP II directive and the extent to which these are reflected in the regulations.

The UK will continue to enjoy the rights, and to be subject to the obligations of an EU member state until we exit the EU. This includes the transposition of EU directives that come into force while the UK remains a member state. The UK was a strong and influential voice in the development of the IORP II directive, which is reflected in the emphasis on good corporate governance and operational resilience required by those in charge of people's retirement savings. Many of the requirements are, therefore, already present on the UK statute book or in the Pensions Regulator's Codes of Practice.

IORP II is being transposed in a minimal impact way. It has been drafted to allow proportionality and tailoring to the specific characteristics of the variety of private pension systems operating across different member states. It is, of course, the case that pension schemes, including Master Trusts, do not have to comply with the EU directive itself. Government will transpose any elements of the directive that are not already present in UK law in an appropriate way into the UK's sovereign law. While we are not yet in a position to confirm the precise details of all aspects of the transposition process, our intention is that the authorisation and supervision regime for Master Trusts will be sufficient for schemes to demonstrate compliance with UK law on scheme governance, including any changes made to UK law as part of the transposition of IORP II.

Member Engagement

Finally, I will turn to your query on the nature of member engagement.

The diverse nature of the Master Trust market has to be borne in mind when the nature of member engagement is considered. Some Master Trust schemes do have member-nominated trustees and we would encourage schemes to appoint trustees with a wide range of experience. However, not all Master Trust schemes are structured in the same way or have the same relationships with employers. In fact many Master Trust schemes have different sections and conditions for different employers, meaning that the condition within schemes and member priorities are not homogenous.

Member engagement remains a concern. The regulations ensure that schemes have appropriate processes relating to member engagement. This includes whether there are sufficient systems and processes for facilitating members' engagement with the scheme, bringing members' views to the attention of the trustees and directing members' complaints to the correct channels for resolution.

The Pensions Regulator's Code of Practice No. 15 "Authorisation and supervision of Master Trusts", laid in Parliament on 2 July for consideration is clear that evidence of member engagement is necessary in the form of a communication plan. This communication plan will cover the methods that will be used to improve/maintain member engagement including the standards for, and timing of, communications with members.

I hope you find this letter helpful, I have copied it to all peers who spoke in the debate and will place a copy in the House Library.

A handwritten signature in black ink, reading "Buscombe". The signature is written in a cursive style with a large, prominent initial 'B'.

**BARONESS BUSCOMBE
MINISTER FOR WORK AND PENSIONS (LORDS)**