

# Standards for professional trustees of occupational pension schemes

## Introduction

### Professional trustees

Professional trustees play an important role in the UK pensions system and should be able to demonstrate that they have sufficient expertise, knowledge and skills to perform the role. The Pensions Regulator (TPR) and the pensions industry wants to see good quality professional trustees who will help to improve the governance of occupational pension schemes. Well-governed pension schemes should achieve good outcomes for members, benefiting sponsoring employers and the economy as a whole.

This set of standards and the associated accreditation process are intended to improve, and provide assurance on, the quality of professional trustees and discourage poor practices in the market.

Further background on how these standards have been developed can be found in Appendix A.

### Scope

The standards apply to anyone falling within TPR's description of a professional trustee as set out in its August 2017 policy document (including any subsequent amendments). The policy describes a professional trustee as:

*"...any person, whether or not incorporated, who acts as a trustee of the scheme in the course of the business of being a trustee.*

*(TPR) would not normally consider a remunerated trustee to be acting as a trustee of the scheme in the course of the business of being a trustee if:*

- a) *they are or have been:*
- *a member of the pension scheme or a related pension scheme (i.e. a scheme with a sponsoring employer in the same corporate group); or*
  - *employed by, or a director of, a participating employer in the pension scheme (or an employer in the same corporate group); and*

- b) *they do not act, or offer to act, as a trustee in relation to any unrelated scheme.*

*Where an individual represents or promotes themselves to the trustees or sponsors of one or more unrelated schemes (i.e. schemes in relation to which the individual does not meet either of the descriptions in (a) above) as having expertise in trustee matters generally (rather than just in certain areas), whether for remuneration or otherwise, (TPR) would normally consider them to be acting in the course of the*

*business of being a trustee.”<sup>1</sup>*

The standards do not apply to trustees of Small Self Administered Schemes<sup>2</sup> (SSAS) unless they have non-SSAS appointments.

## Aim of the standards

The standards aim to articulate clearly what excellence looks like for individuals acting as professional trustees to occupational pension schemes. The goal is that the standards will:

- act as a positive inspiration for professional trustees operating in this field, ensuring individuals are aware of what is expected of them,
- provide a framework for those making decisions to hire professional trustees and subsequently assessing their performance, and
- provide a benchmark against which any complaints about professional trustees can be judged.

An accreditation process involving initial qualification and annual renewal will enable professional trustees to demonstrate they meet the standards. This will provide a level of assurance to those appointing them that they have:

- a high level of fitness and propriety
- technical pensions knowledge
- appropriate behavioural attributes, and
- soft skills enabling them to operate as a chair or other member of a trustee board.

The standards apply to professional trustees on an individual basis rather than at trustee firm level. They therefore do not cover organisational aspects (for example systems, controls and professional indemnity insurance) which may be applicable at firm level.

## The particular role of chairing

Many schemes have a professional trustee appointed as the chair and TPR research shows many professional trustees have chair appointments. TPR says chairs of pension schemes:

*“...should be prepared to assume similar governance responsibilities to those expected of a chair of any corporate board but adapted to suit the needs of their scheme.*

*They need to be an effective leader, with an independent viewpoint and capable of setting high standards for the board as a whole. They should be able to recognise each individual trustee’s potential and ensure their knowledge and skills are used effectively.*

*Trustee boards need to look strategically across all of the issues that affect their scheme. A chair who can remind trustees to take the broad, long-term view, and can*

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<sup>1</sup> <http://tpr.gov.uk/docs/professional-trustee-description-policy.pdf>

<sup>2</sup> Small Self Administered Schemes have between 2 and 11 members, all members are trustees and all decisions are made unanimously by the trustee board.

*help achieve compromise and consensus, is an asset. They should also involve and encourage participation from all board members, particularly new trustees. When appointing a chair, the skills and experience of candidates should be considered.”<sup>3</sup>*

The standards support these principles in full.

## The schedules

The detail of the standards is split into three schedules as follows:

### Schedule 1 – General Standards

The standards set out in Schedule 1 cover the following areas:

- Overview.
- Fitness and propriety.
- Professional development.
- The role of the professional trustee on a trustee board.
- Behaviours and skills.
- Conflicts of interest.
- Trustee duties delegated to a professional trustee.
- Practices relating to the professional trustee’s own appointment.

### Schedule 2 – Standards relating specifically to chairing a trustee board or assisting the chair of a trustee board

Schedule 2 sets out additional standards for professional trustees who act as chairs, covering the particular areas where they should provide leadership to the trustee board and what would be expected from them in their dealings with:

- the trustee board
- the employer
- advisers and suppliers, and
- TPR.

The schedule also sets out the standards a professional trustee chair should apply to scheme governance.

Professional trustees who are not chairs should support their chair in achieving the standards set out in Schedule 2.

### Schedule 3 – additional standards for professional trustees who act as sole trustee

Schedule 3 sets out additional standards for professional trustees with sole trustee appointments.

## Interpretation

The standards use the word “must” to mean a mandatory requirement in all circumstances. In contrast, the standards use the word “should” to indicate that, while

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<sup>3</sup> [Trustee board guide for DC pension schemes | The Pensions Regulator](#)

the presumption is that professional trustees comply with the relevant provision, it is recognised that there will be some circumstances in which professional trustees are able to justify non-compliance

# **Schedule 1 – General Standards**

## **Overview**

Professional trustees must meet the requirements imposed on any pension scheme trustee by general trust and pensions law, the Trust Deed and Rules of the scheme as well as the expectations set out in relevant codes of practice issued by TPR.

Professional trustees must bring specialist pensions capability to the board, including:

- (a) A thorough understanding of the key issues facing pension schemes, and how to address these effectively.
- (b) Good practice on governance matters and effective risk management.
- (c) An ability to examine issues objectively and impartially, and to question advice appropriately.
- (d) Insight into the market for services to pension schemes.

## **Fitness and propriety**

Professional trustees must be fit and proper persons who meet the standard of honesty, integrity and knowledge appropriate to their role. They will be required as part of the accreditation process to confirm annually that they have not been subject to matters such as unspent criminal conviction, bankruptcy or disqualification from being a director or trustee.

## **Expertise and care**

Professional trustees must carry out their work with competence and care. They must have the relevant skills, knowledge, experience and capacity to be able to discharge their duties, including a thorough understanding of the complexities and challenges of the particular scheme.

## **Professional development**

Professional trustees must continue to develop their knowledge and skills and undertake annually a minimum of 25 hours relevant learning and development, as specified in the accreditation requirements.

## **The role of the professional trustee on a trustee board**

The role of a professional trustee will be influenced by specific circumstances, including the skills and capabilities of other members of the trustee board and the level of executive support available. Members of trustee boards usually have joint responsibility for all decisions made by that board. While the professional trustee is likely to be highly influential on the trustee board, they are generally not singularly accountable for decisions made and actions taken.

Professional trustees should seek to ensure the trustee board as a whole:

- is aware of the need to comply with all relevant legal and regulatory requirements
- gains a clear understanding of the issues that they are required to make decisions on
- assesses carefully which areas need external advice
- questions professional advice thoroughly to enhance its ability to make good decisions in all key areas
- adopts strong governance practices
- ensures effective risk management and internal control processes are in place, and
- monitors its own performance and that of its advisers and takes action to correct shortcomings.

Professional trustees have a particular role in ensuring the judgement of the trustee board is not compromised, or seen to be compromised, by bias, conflict of interest or undue influence of others. They are likely to play an active role in identifying, assessing and managing actual or perceived conflicts of interest affecting the trustee board.

There may be occasions where the trustee board as a whole makes, or is about to make, a decision that the professional trustee does not consider is in the interests of the scheme members, or where he/she believes a course of action is unethical or unlawful. On such occasions, the professional trustee must ensure that the whole board is aware of their view and should take steps to ensure this is appropriately documented. If the decision is made regardless, the professional trustee should consider their position carefully and take appropriate action, which could include reporting the matter to TPR and/or resigning from their position.

## **Behaviours and skills**

Professional trustees must act at all times with honesty and integrity.

They should be good communicators who positively influence their trustee boards. They should have effective communication skills to enable them to interact with fellow trustee board members, the employer and advisers and should promote constructive relationships with all parties. They also should promote constructive engagement with TPR where appropriate.

## **Conflicts of interest**

Professional trustees should ensure that their fiduciary duty to members has primacy over their own or their firm's commercial interests.

Professional trustees must act in the interests of the scheme and its members (even if this conflicts with their own or their firm's interests). They should support the trustee board to identify, assess and manage any actual, perceived or potential conflicts of

interest affecting the trustee board or its individual members. For example, if a buy-out and wind-up is being considered, the professional trustee must consider whether it is in the interests of the scheme members, not the fact that such an event would result in their role and income stream ceasing. Similar considerations would apply when assessing transferring assets and liabilities to a master trust or other consolidator, where particular care is needed to manage conflicts of interest.

Advice that could lead to a trustee board making a decision and/or taking an action should not be provided by the professional trustee or the professional trustee's firm (or its wider group) where the professional trustee is on the trustee board. This includes all regulated advice such as scheme actuary advice, investment advice falling under Section 36 of the Pensions Act 1995, auditing of scheme accounts, legal advice and covenant advice.

### **Trustee duties delegated to a professional trustee**

Some professional trustees have capabilities which enable them to perform activities for a trustee board as opposed to outsourcing to a third party, either as a result of their own professional background and experience or their firm's wider resource pool. Such duties might include maintaining records of meetings, keeping member records, processing payroll, submitting scheme returns, or maintaining financial records.

Professional trustees should, where they (or their firm) assume delegated trustee duties, ensure that they (or their firm):

- have the relevant skills and expertise
- maintain robust processes and procedures
- can demonstrate appropriate compliance, and
- have separate terms of business in place.

In relation to any delegated duties, professional trustees should ensure that there are appropriate mechanisms in place to review (on an ongoing basis) the quality of work and value for money being provided, for example by implementing a periodic market testing and review process. The professional trustee should ensure they do not have an active involvement in such a review.

There should also be appropriately robust processes in place to deal with any complaints, errors or omissions in relation to any delegated duty that is fulfilled by the professional trustee or their firm. If a significant error occurs and any other stakeholders are taking legal action against the professional trustee or their firm, the professional trustee may need to consider his or her position on the trustee board.

### **Practices relating to the professional trustee's own appointment**

The professional trustee should have clear terms of business in place that set out the basis of the relationship between them and the entity appointing them. These business terms can be with the individual or their firm as appropriate.

The professional trustee should ensure that relevant provisions in the Trust Deed and Rules are met as regards the formalities and approvals around the appointment.

The professional trustee should make enquiries about the scheme and its management to ensure they understand its circumstances and that they are equipped to meet any particular needs. If another professional trustee is standing down or has been removed, they should seek a written statement from that person detailing the circumstances. Professional trustees should provide such statements when requested. This applies at the level of the legal appointee, not at the level of an individual representing a corporate trustee.

The professional trustee should take reasonable steps with the appointing party to review the length of their own appointment from time to time. It is considered that, in many cases, a maximum aggregate term of ten years is appropriate for any individual trustee. However, it is recognised that these decisions are ultimately for the person or organisation who is hiring the professional trustee.



## **Schedule 2 – Standards relating specifically to chairing a trustee board or assisting the chair of a trustee board**

A professional trustee who acts as a chair of the trustee board must meet the standards set out in Schedule 1 in addition to those set out in this schedule.

### **Overview**

Certain qualities are expected of a trustee chair and a professional trustee should demonstrate these qualities to an equal or higher level. A professional trustee chair should provide leadership to the trustee board. They should be fully engaged with all the issues of strategic importance facing the scheme, to have the technical knowledge required to gain a deep understanding of these issues, and to ensure the board addresses these key areas. They should also ensure good governance practices across the board's activities.

**For DB schemes**, the key issues often include covenant, investment strategy, funding, journey planning and scheme administration. A professional trustee chair will ensure that effective, timely and well-integrated advice is obtained across these and other key areas, and that the issues are well-debated and understood by the whole board.

A professional trustee chair may play a central role in negotiations with the sponsoring employer(s) on key financial matters and should ensure other board members are involved in decision-making.

**For DC schemes**, the key issues are likely to include ensuring value for money and appropriate choice for members (including appropriate default funds), the operational risks inherent in the arrangements and meeting all regulatory disclosure requirements.

**For all schemes**, a professional trustee chair will drive the activities of the board, with a focus on the strategic priorities and key risks affecting the scheme, maintaining a constructive environment on the board which encourages engagement by all members of that board.

The professional trustee chair should ensure that the board has sufficient time and receives the necessary input to enable appropriate decisions to be made taking all key factors into account. They will ensure the board is able to form its own view based on advice and is not unduly adviser-led. They will ensure decisions are well documented and that implementation is well executed, using available resources as appropriate.

## Expected role of professional trustee chair in relation to different parties/areas

Here, we set out the roles and qualities expected of a professional trustee chair in more detail. A professional trustee who is not chair should assist the chair as far as possible to meet these standards.

| Trustee board                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Employer                                                                                                                                                                                                                                                                        | Advisers and suppliers                                                                                                                                                                                                                                                                                                                                                      | The Pensions Regulator (TPR)                                                                                                                                                                                                                                                      | Governance matters                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Have the skills to be an effective chair, including the ability to lead the board, chair meetings well and achieve consensus where possible.</li> <li>Provide direction to the board, ensuring that key strategic and/or high-risk issues facing the scheme are identified and given appropriate attention and focus.</li> <li>Provide leadership to the board, ensuring appropriate decisions are made taking all key factors into account.</li> </ul> | <ul style="list-style-type: none"> <li>Ensure the trustee board takes steps to assess the covenant provided by the sponsoring employer (including its likely future development), so that all funding and investment decisions can be made taking this into account.</li> </ul> | <ul style="list-style-type: none"> <li>Encourage advisers to provide clear, objective, and informed advice.</li> <li>Actively challenge advice in critical areas to ensure trustees are not following it blindly.</li> <li>Ensure processes are in place to assess ongoing quality of advisers and other service providers and the value for money they provide.</li> </ul> | <ul style="list-style-type: none"> <li>Ensure all relevant regulatory requirements and relevant TPR codes of practice and guidance are well understood by the board and acted upon as necessary.</li> <li>Encourage co-operation with TPR and other regulatory bodies.</li> </ul> | <ul style="list-style-type: none"> <li>Ensure there is oversight over the effectiveness of internal controls to comply with legal, regulatory and other requirements.</li> <li>Ensure the trustee board has effective risk management processes in place.</li> <li>Organise appropriate committee structures to ensure efficient board operation.</li> </ul> |

| Trustee board                                                                                                                                                                                                                                                                                                                                                                                                                                          | Employer                                                                                                                                                                                                                           | Advisers and suppliers                                                                                                             | The Pensions Regulator (TPR)                                                                                  | Governance matters                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Encourage full participation and open board discussions, using skills available on the trustee board to good effect.</li> <li>• Manage the performance and effectiveness of the board to good effect and operate effective succession planning.</li> <li>• Ensure trustee knowledge and understanding of the trustee board is assessed and take steps if it does not meet the needs of the scheme.</li> </ul> | <ul style="list-style-type: none"> <li>• Be able to act as the key interface with the sponsoring employer and manage that relationship on behalf of the trustee board, or ensure this is otherwise done to best effect.</li> </ul> | <ul style="list-style-type: none"> <li>• Ensure scheme costs are monitored and are proportionate to the scheme's needs.</li> </ul> | <ul style="list-style-type: none"> <li>• Ensure all reporting requirements for the scheme are met.</li> </ul> | <ul style="list-style-type: none"> <li>• Organise resources effectively so the trustee board is well supported in its work.</li> </ul> |

## **Schedule 3 - additional standards for professional trustees who act as sole trustee**

The following professional trustees should not accept appointments to act as sole trustee:

- Sole traders.
- Those whose firms are not sufficiently resourced to mitigate the additional risks and responsibilities.

Professional trustees who act as sole trustee to a scheme must ensure the following are in place in their firm:

1. Appropriate governance arrangements to mitigate the additional risks and responsibilities associated with sole trusteeship.
2. Formal written procedures for fraud prevention, maintenance of continuity of service and peer review of key decisions.
3. Annual provision of Audit and Assurance Faculty (AAF) 02/07 reports.
4. A process to ensure there are a minimum of two accredited professional trustees from the trustee firm, directly responsible for each sole trustee appointment. Diversity remains an important attribute even where a sole corporate trustee is in place. Together, the individuals involved in the decision-making should, as far as possible, offer diversity of skills, experience and perspective.

Any firm acting as co-trustee on a board of trustees which is asked to provide services on a sole trustee basis should ensure due consideration is given by the trustees and employer as to whether there should be a formal tender/benchmarking process before the appointment is made. The conclusions and clearly explained rationale should be documented.

A trustee may be appointed to an existing board as a co-trustee with the objective of becoming the sole trustee once they have gained insight and scheme-specific knowledge. Depending on the circumstances, it may be appropriate to review an incumbent professional trustee before a final decision is reached on converting them from co-trustee to sole trustee status.

## **Appendix A**

### **Background**

The Professional Trustee Standards Working Group (PTSWG) was established in 2017 by the professional trustee bodies across the pensions industry following The Pensions Regulator's (TPR) 21st century trusteeship and governance discussion paper.

The PTSWG's remit was to establish a set of standards for professional trustees and to put forward a system by which professional trustees could be accredited to demonstrate their ongoing adoption of and continuing assessment against the standards.

### **About the authors**

These standards for professional trustees of occupational pension schemes have been produced by the PTSWG after broad consultation in the pensions industry.

### ***Chair***

Andrew Bradshaw Association of Professional Pension Trustees (APPT)

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