

Consultation paper

Investment governance of defined contribution (DC) pension schemes

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Foreword

Pension provision in the UK is changing. As the defined contribution (DC) pension model becomes more dominant, so the individual has to bear more risks and responsibilities.

This consultation paper recognises the shift in the balance of risk and responsibilities held between the individual members of DC work-based pension schemes and those who set up, run and provide advice relating to their pensions.

It sets out a framework that provides practical guidance to help trustees, providers, employers and advisers within the work-based DC pension environment increase transparency and accountability, and improve the investment decision-making and governance of DC pension schemes, so maximising the potential for a positive outcome for scheme members.

We encourage all interested parties and their representative bodies to respond.

A handwritten signature in black ink that reads "Victoria Nye". The signature is written in a cursive, flowing style.

Victoria Nye
Investment Management Association
Chair of the IGG DC Subgroup

Executive summary

The past two decades have seen a marked and growing trend towards DC pensions in the UK. With the introduction of auto-enrolment in 2012, it is a trend that is expected to accelerate. Unlike DB provision, DC pension provision shifts the risks largely onto individuals. It is therefore vital that DC schemes have strong investment governance.

The *Myners' Principles* have improved investment decision-making and governance for trust-based schemes. However, a gap remains for '*best practice' guidance* relating to the investment governance of DC pension schemes, both trust-based and particularly contract-based arrangements.

The *Investment Governance Group (IGG)*, a group of senior figures representing all parts of the private work-based pension environment, set up a subgroup to address this and focus on work-based pension schemes that provide benefits on a DC basis. This consultation paper is the result of their work.

The proposals in this consultation paper aim to maximise the opportunity of a good outcome for members of work-based DC pension schemes irrespective of their legal structure.

The consultation paper puts forward *Principles*, '*Best practice' guidance* and a *Table of accountabilities* (together, the *framework*) that specify the characteristics of best practice in today's DC pension environment. The aim is to support trustees, employers, providers, consultants and advisers in strengthening their investment decision-making and pension fund governance for the benefit of scheme members. The *Principles* address the following key areas:

- roles, responsibilities and accountability;
- fund choices/default strategy; and
- communications with pension scheme members on the decisions they can make.

The Framework of Principles, 'Best practice' and Table of accountabilities

The **Framework** complements legislative and regulatory requirements and highlights what trustees, providers, advisers and employers need to do to increase transparency and accountability, improve investment decision-making and pension fund governance

The **Principles** are intended to be the accepted code of '*best practice*' for those responsible for investment decision-making and governance in DC schemes. It is expected that those responsible will report against these on a voluntary 'comply or explain' basis.

The '**Best practice' guidance** sets out the main components of 'best practice' that when undertaken will help meet the objectives of the *Principles*. The components aim to provide a checklist against which decision-makers can identify and act on areas needing attention. It is not expected that decision makers will score 100%, 100% of the time, but this will enable them to measure their progress towards that goal.

The ***Table of accountabilities*** sets which decision makers are accountable at the main stages of scheme initiation, monitoring, review and change and communication to members. The aim is to show that in '*best practice*', employers and trustees should assess the quality of investment governance, but can delegate the execution of decisions and processes to expert third parties, such as providers and advisers. This document should be read in conjunction with the *Principles* and '*Best practice*' guidance.

How to respond to this consultation paper

The IGG invites comments to this consultation paper by **5 May 2010** from all stakeholders involved in the setting up and running of, and advising on work-based DC pension schemes. Please send your responses to:

Glenn Fallows

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Brighton
BN1 4DW

Email: **glenn.fallows@thepensionsregulator.gsi.gov.uk**

The IGG also encourages a dialogue beyond the formal consultation period. The *Framework* is intended to be a live toolkit and should reflect ongoing improvements in '*best practice*'.

Chapter 1: Background

General context – the move to DC

The way pensions are provided in the UK is changing: only around a third of (DB) schemes are still open to new members and there are now more active members in private sector DC schemes than in private sector DB schemes.

While DC and DB pensions differ in a number of ways, a key difference is the requirement for the individual member, rather than the sponsoring employer, to bear the investment and longevity risk. However, while individual members bear more responsibility in DC schemes, responsibility for a good outcome for the pension scheme member also lies with trustees, providers, employers, advisers and consultants, depending on the architecture of the scheme.

Taking forward the *Myners' Principles*

The *Myners' Principles*, established in 2001 and updated in October 2008, have proved very helpful in improving trustees' investment decision-making and pension fund governance, facilitating the spread of '*best practice*' among trust-based pension schemes. But a gap remains for '*best practice*' guidance relating to the investment governance of DC pension schemes.

In its consultation *Updating the Myners' Principles*, March 2008, the Government emphasised that 'good scheme governance is at the heart of a well run pension scheme', and the one theme that underpins each of the Pensions Regulator's statutory objectives.

The Government also said that one of its key objectives was for trustees specifically and the pensions community more generally to achieve greater ownership of the *Myners' Principles*:

'Increasing industry advocacy and promotion of the principles is essential to their continued utility and development (...) this will help improve application of the principles by trustees, encourage better quality reporting against them, and stimulate debate on the development of best practice'.¹

To achieve this, and to address those areas for improvement of investment governance identified by NAPF's 2007 paper *Institutional Investment in the UK: six years on*, the Government established the Investment Governance Group (IGG).

Respondents to the consultation endorsed the Government's proposal that the *Myners' Principles* should be applied not only by trustees of DB pension schemes but also by trustees of DC schemes. They also agreed that the newly created IGG should update the principles to reflect the nature and qualities that are specific to the DC pension environment.²

¹ P.25.

² 'Respondents endorsed the need for trustees of DC schemes to apply the *Myners' Principles* and agreed that the IGG should update the DC principles. A number of respondents made the point that the growth in size and importance of DC provision required stronger emphasis on the DC principles in their own right. In particular, they should not be seen as an extension of the defined benefit (DB) principles and in updating them the focus needed to be the particular characteristics of the DC model, such as trustee selection of the default fund, the range of fund choices offered to members, communication with members on risk/return decisions, and recognition of the difference between trust-based and contract-based DC schemes'. See para 2.15, *Updating the Myners' Principles: a response to consultation*, October 2008.

The IGG and the DC subgroup

The IGG is sponsored by HM Treasury and the Department for Work and Pensions (DWP), and chaired by the Pensions Regulator. The group consists of trustees and other experienced figures involved in investment decision-making in DB, DC trust-based and DC contract-based pension schemes, including providers, consultants and advisers. Pension scheme members are also represented.

The IGG's aims are to:

- Implement a new industry-led framework for the application of the *Myners' Principles*.
- Improve the way investments in work-based pension schemes are governed.
- Encourage the spread of '*best practice*' in investment decision-making and governance.

The IGG DC subgroup was set up to:

- Report to the IGG and to work in line with its terms of reference.
- Recommend improvements to the *Myners' Principles*, or propose a new set of principles consistent with *Myners' Principles*, which are relevant to work-based pension schemes that provide benefits on a defined contribution (DC) basis.
- Identify any gaps in the existing provision of guidance on '*best practice*' and tools for those responsible for investment decision-making and governance in DC schemes. To prioritise areas where additional provision is likely to have the most positive impact.
- Determine with the Pensions Regulator the most effective means of producing and distributing 'good practice' guidance and tools that will complement and enhance existing guidance.
- Recommend a strategy to encourage those with responsibility for governance in DC schemes to adopt the principles and 'good practice' guidance.
- Propose a means by which to secure evidence over an appropriate time period that a growing number of the target market are referring to the *Principles* and using the guidance.

The aims of this consultation

This consultation paper takes forward the *Myners' 2008 Principles*, addressing the gaps it leaves in the DC space. It puts forward a set of *Principles*, *'Best practice' guidance* and a *Table of accountabilities* that aim to:

- Provide a coherent framework for all those with a responsibility for investment governance in the provision of work-based DC pension schemes.
- Close key gaps in the investment governance of work-based DC schemes that are not currently addressed by the *Myners' Principles* or other industry guidance.
- Improve investment governance in the interests of pension scheme members, maximising the potential for them to meet their expectations with their retirement funds.

The *Framework* aims to reflect issues specific to the DC work-based pensions environment, whilst providing flexibility for those with a responsibility to decide on their own approach. It addresses the following key areas:

- **Roles, responsibilities and accountability:** Whilst trustees' responsibilities are governed by law, and providers of contract-based DC schemes must comply with the FSA's TCF regime and COBS rules, there remains a need for greater clarity of roles in the interests of pension scheme members.
- **Fund choices/default strategy:** Members of DC pension funds need access to a range of fund choices as well as a default strategy. The range of fund choices needs to strike the right balance between meeting member needs, but without being overwhelming or restrictive. There is also a need to set a clear framework for *'best practice'* for all schemes without prescribing a particular approach. The DWP supports the IGG's objective to encourage *'best practice'* in pension provision. In addition to this, the DWP is also developing guidance on the *Use of default options in workplace personal pensions*, which aims to set the standards that all default options should meet as a minimum.
- **Communications with pension scheme members on the decisions they can make:** Members of DC pension schemes bear greater risk than those in DB pension arrangements. The FSA's TCF outcomes and associated guidance provide a framework on how to communicate with DC pension scheme members. But the communication between trustees, employer or adviser and the pension scheme members and their representatives offers an invaluable opportunity to emphasise the importance of the decisions members must take themselves, for example on the effect of contribution levels and persistency on the level of income they might receive in retirement.

The *Framework* also aims to encourage a process of self-assessment so that trustees, employers and providers can continue to improve the quality of their investment-decision making and governance.

Chapter 2: Scope and aims of the *Framework*

About the *Principles*

The *Principles* are intended to be the accepted code of ‘best practice’ for investment decision-making and governance. The IGG envisages that all parties involved in setting up, running and advising on private work-based DC pensions will assess their practice against the *Principles* and, where appropriate, take steps to improve the quality of their investment decision-making, pension fund governance, and processes.

Depending on the structure of the scheme, these parties may include employers, trustees, member representatives, advisers, scheme providers, fund managers or administrators, as appropriate. This consultation paper refers to them as decision-makers.

The six *Principles* are:

Principle 1: Clear roles and responsibilities for investment decision-making and governance

Principle 2: Effective decision-making

Principle 3: Appropriate investment options

Principle 4: Appropriate default strategy

Principle 5: Effective performance assessment

Principle 6: Clear and relevant communication with members

They should be regarded in the same way as the *HMT/DWP Principles* of October 2008 for DB schemes and so be adopted on a ‘comply or explain’ basis. To the extent that parties involved with setting up, running or advising on work-based pension schemes incorporating DC assets act in a manner inconsistent with the *Principles*, they should be able to explain why and to justify their actions to scheme members and their representatives.

About the ‘*Best practice*’ guidance

The ‘*Best practice*’ guidance sets out the main components of ‘best practice’ that when undertaken will help all parties meet the *Principles*. The components, which are not listed in any particular order, aim to provide a checklist against which decision-makers can identify areas needing attention, and act on them. Decision-makers are not expected to implement every element of ‘best practice’ all of the time. Rather they may use ‘best practice’ examples where appropriate to help demonstrate their level of attainment. We want to encourage decision-makers to apply the guidance as widely as possible, so that they can move towards ‘best practice’ behaviour, governance and processes.

About the *Table of accountabilities*

The *Table of accountabilities* sets out the key decision-maker accountable at the main stages involved in the setting up and running of work-based DC schemes, both for trust-based and contract-based schemes. Taken together with *Principle 1*, the *Table* aims to define and clarify the roles and responsibilities of each decision-maker, increasing transparency and accountability of each part of the investment governance chain.

It is important to stress that whilst employers remain accountable in the investment governance process, they are able to delegate their investment governance decisions and processes to third parties.

About the *Framework*

The *Framework of Principles, 'Best practice' guidance and Table of accountabilities* is intended to supplement existing legal and regulatory requirements, and to apply regardless of the particular characteristics of individual schemes. It is complemented by existing guidance and tools, set out in Annex B. The *Framework* is also intended to be a 'living' document so that it can be updated to reflect the latest relevant developments in the DC environment.

Chapter 3: The Framework of Principles, ‘Best practice’ guidance and Table of accountabilities

Principle 1: Clear roles and responsibilities

Principle rationale: This *Principle* aims to help decision-makers lay firm foundations for the process of investment governance. It advocates that the ‘lead’ decision-maker (identified in the table of accountabilities, below) takes appropriate steps to identify and define roles and responsibilities of each decision-maker within the investment governance chain. It also requires the lead decision-maker to document and communicate these roles and responsibilities to the investment governance chain, ensuring each party is clear as to the role they are expected to play in the process.

<p>The <i>Principles</i> will be the accepted code of ‘best practice’ for those responsible for investment decision-making and governance in DC schemes.</p>	<p>This guidance, and the tools to which it refers, are intended to help trustees, employers, providers and advisers to apply the principles effectively.</p>
<p>DC Principle</p>	<p>‘Best practice’ guidance for DC</p>
<p>Principle 1: Clear roles and responsibilities</p> <p>Roles and responsibilities in relation to investment decision-making and governance are clearly defined and communicated to interested parties</p>	<p>Decision makers</p> <ul style="list-style-type: none"> • are those responsible for investment governance and they must decide which responsibilities are allocated to which roles within the operation of the pension plan (see table ‘Investment governance decision-makers: Table of Accountabilities) • should record the roles and responsibilities of each decision maker in an investment governance plan, <i>Statement of Investment Principles</i> or similar document • should identify and document any conflicts of interest together with a plan to manage those conflicts where appropriate. • should put together a document for members which explains the allocation of responsibilities among the decision makers and list those responsibilities which members must take on in relation to their own pension planning • Take into account the Institutional Shareholders' Committee Stewardship Code in adopting a policy on Responsible Ownership (to the extent that it is practical in the context of the funds offered or under consideration), monitor its implementation and report on it to interested parties (including members and member representatives)

Investment governance decision-makers: Table of accountabilities

This table must be read in conjunction with the IGG DC Principles and Best Practice guidance. It is important to note that in best practice employers and trustees can take advice from third parties in relation to making investment governance decisions and processes and can delegate execution to third parties, such as providers and advisers.

	Investment Governance (IG) Decision (or Process)	Decision-maker for trust-based schemes	Decision-maker for contract-based schemes	Related principle(s)
Scheme Initiation	Consider selecting/select an adviser	Employer*	Employer*	--
	Decision to set up trust-based or contract-based scheme	Employer*	Employer*	--
	Appointment of trustees	Employer*	N/A	--
	Consider setting up a management committee	Trustees**	Employer*	--
Stage 1: Scheme Set-Up & Design	Selecting the provider and agreeing and recording an IG process (a governance plan) including delegations of responsibility	Trustees**	Employer*	1 & 2
	Agree investment objectives, Statement of Investment Principles and select fund range (including the default option, as appropriate for members)	Trustees**	Employer*	3 & 4
Stage 2: Monitoring, Review & Change	Compliance with, and ongoing monitoring of, legal & regulatory requirements	Trustees	Provider	All
	Monitoring of investment performance of the funds, including the default option	Trustees**	Employer*	5
	Reviewing the fund range/default option and changing if required	Trustees**	Employer*	2
	Reviewing the provider/adviser and changing if required	Trustees**	Employer*	2
Stage 3: Comms to Members	Communication to members on investment choices, performance, retirement options, etc	Trustees**	Employer*	6
	Review communications to members	Trustees**	Employer*	6

KEY

* with input from professional advisers and providers as appropriate

** with input from employer, advisers and providers as appropriate

Question 1

- a) How accurate is the *Table of accountabilities* and *Principle 1* in defining the roles and responsibilities of decision-makers?
- b) Do the *Table* and *Principle 1* make it clear that employers and trustees are accountable, but can delegate their investment governance decisions and processes to third parties, eg through clear terms of engagement with providers?
- c) How practical is it for employers and trustees to carry out their roles and responsibilities where required, or to delegate them?
- d) To what extent will the documentation of roles and of any conflicts of interest assist in dealing with conflict issues?

Principle 2: Effective decision-making

Principle rationale: This *Principle* builds on *Principle 1*. It aims to ensure the process is effective through sound decision-making based on quality and timely information and reference to relevant regulatory requirements and guidance.

It also advocates decision-makers adopt a proactive approach to their decision-making, building in regular assessment and reviews of the people and processes within the decision-making structure, and making improvements where appropriate.

<p>Principle 2: Effective decision making</p> <p>Decisions relating to investment governance are taken on a fully informed basis and the investment governance processes are sound.</p>	<p>Decision makers should</p> <ul style="list-style-type: none">• have or acquire the relevant knowledge, understanding and skills to take decisions, which may be based on advice from those reasonably expected to have the necessary expertise• make available sufficient time and resources for making investment governance decisions• develop an investment strategy and options which are within their governance capabilities• exercise sufficient control to allow them to adapt and develop their strategy as circumstances and market conditions require• be sufficiently familiar with scheme documentation, regulatory requirements and supporting guidance to enable them to observe these principles and carry out their duties in accordance with the requirements set out in these documents• regularly assess the effectiveness of the investment decision-making and governance process with reference to investment performance, make improvements to the process as appropriate and report to interested parties (including members)• regularly review the management of any external investment advisers, their contracts and their remuneration
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Question 2

- a) What recommendations do readers have for addressing gaps in the knowledge and understanding of employers, their delegates and trustees of small schemes needing to follow this guidance?
- b) How can decision-makers best be helped to assess their own performance as decision-makers as well as the investment performance of their fund managers?

Principle 3: Appropriate investment options

Principle rationale: This *Principle* requires decision-makers to provide investment options that take account of a range of risk profiles and needs within the pension scheme membership. It also aims to ensure pension scheme members receive the appropriate level of fund choice to meet their needs, without being overwhelming or restrictive.

DC Principle	'Best practice' guidance for DC
<p>Principle 3: Appropriate investment options</p> <p>The investment options provided take account of a range of member risk profiles and needs and are designed appropriately.</p>	<p>Decision makers should</p> <ul style="list-style-type: none"> • consider the number of funds (as components of the investment options or as standalone entities) to be made available and how the number on offer might impact the ability of members to make effective investment decisions • offer an adequate range of investment options given the expected risk tolerances, investment time horizons and requirements of scheme members, including the likely format and structure of their retirement benefits, and consider how these options may change as they approach retirement • consider: <ul style="list-style-type: none"> - the way investment options are classified and described with a view to making it easier for members to make appropriate choices (eg through the use of a core fund range or listing funds by risk rating of asset type) - the operational characteristics of funds including dealing frequency and liquidity - the costs, including management fees and other fund expenses - the security and stability of the firm(s) providing investment management services and products • ensure that the investment options/funds offered have appropriate names, clear investment objectives and relevant benchmarks • produce guidelines for the selection and removal of investment managers and for any alteration to the range of investment options/funds and, as far as possible, apply them consistently • ensure that investment fees are reasonable and competitive given the performance expectations of the fund • offer an appropriate default strategy

Question 3

Do the 'Best practice' guidance points listed in *Principle 3* comprehensively cover the processes necessary to ensure that scheme members are offered appropriate investment options:

- a) at the outset; and
- b) in the run-up to and at retirement?

Principle 4: Appropriate default strategy

Principle rationale: To provide an investment strategy appropriate for members who prefer not to make their own choice about the fund(s) in which to invest.

DC Principle	DC 'Best practice' guidance
<p>Principle 4. Appropriate default strategy</p> <p>An investment strategy which is offered for members who prefer not to make a choice is designed appropriately.</p>	<p>Decision makers should</p> <ul style="list-style-type: none">• consider the overall objective for the default strategy including:<ul style="list-style-type: none">- risk and return (net of fees)- members' likely needs- Its position in relation to all other investment options• aim, as far as is practical, to ensure that the default strategy takes into account members' expected term to retirement, their attitude to risk, and the expected format and structure of their retirement benefits at the outset and over time.

Question 4

- a) Does the guidance provide appropriate parameters for setting a default strategy?
- b) To what extent, if any, might this guidance limit the possibilities for innovation in respect of default strategies?

Principle 5: Effective performance assessment

Principle rationale: The aim of this *Principle* is to ensure decision-makers monitor the performance of investment options and take appropriate action where necessary.

DC Principle	DC 'Best practice' guidance
<p>Principle 5: Effective performance assessment.</p> <p>The performance of investment options is monitored.</p>	<p>Decision makers should</p> <ul style="list-style-type: none">• assess the performance of each investment option regularly against its stated benchmark• consider removing any investment option which has not performed well and is not expected to perform well in future against its benchmark from the range of options on offer• spend an appropriate amount of time and resources reviewing and managing each investment option• monitor the suitability of any investment wrapper and be prepared to swap to other arrangements when appropriate

Question 5

The process of performance assessment is an essential component of best practice in investment governance and investment decision-making. To what extent does the guidance given in *Principle 5* ensure that this process is in itself effective?

Principle 6: Clear and relevant communication

Principle rationale: The aim of this *Principle* is to provide pension scheme members with clear, relevant and timely information so they can:

- make an informed choice relevant to their circumstances about which fund/s to invest in
- understand their personal responsibility for their pension plan, the choices they have available and how these affect the value of their fund and retirement income.

DC Principle	DC ‘Best practice’ guidance
<p>Principle 6: Clear and relevant communication</p> <p>Clear information on the investment options and their characteristics that will allow members to make informed choices is provided.</p>	<p>Decision makers should communicate effectively with scheme members. Such communications should:</p> <ul style="list-style-type: none"> • be tailored to the expertise of the members, using plain English and an appropriate format to engage their interest • state the investment objectives, benchmarks and fees for all funds together with the risk/return characteristics of each fund in such a way as to enable members to make a meaningful choice between them • provide or signpost tools, seminars and further information that can help members to understand the basic tenets of investment strategy including, most particularly, the interaction between risk and return • provide or signpost tools to help members to appreciate that it is only the contribution levels, term to retirement and investment returns which affect the size of the fund which will be available to them to provide a retirement income • provide members with regular and consistent performance reporting, net of fees, on the investment options available to them • provide members with investment information relevant to their term to retirement and circumstances. • set out clearly the options which will be available at retirement in a way which is appropriate for the members in question and, in the case of annuities, make clear the importance of selecting the most relevant annuity option and obtaining several quotes • set out information on the decision-making and investment governance of the scheme in a Statement of Investment Principles for trust-based schemes or details of the investment strategy for contract based schemes

Question 6

- a) To what extent does the content and level of communications allow members to make an informed choice about funds in which to invest?
- b) The *'Best practice' guidance* here requires decision-makers to provide members with information in the run-up to and at retirement. Is it right to do this, and if so, has it been given sufficient emphasis? Is there a need for further guidance on this point?

General questions

Question 7

- a) To what extent will the proposed approach (comprising a set of *Principles*, *'Best practice' guidance* and a *Table of accountabilities*):
 - i) improve standards of investment decision-making and governance in the work-based DC environment and/or in your case?
 - ii) help align decision-making in the best interests of the pension fund member?
- b) As the Principles and Guidance are presented as "best practice", do you think we should encourage decision-makers by saying "comply or explain", "justify or comply" or would you like to suggest an alternative wording?
- c) Do the *Principles* cover all the key issues? Please indicate any areas you do not agree with and reasons.

Question 8

- a) To what extent will you use the *Principles*? If not, why not?
- b) Do you currently use any existing guidance? How does it help your processes/practice?
- d) Will the *Principles* and *Table of accountabilities* work for both contract-based and trust-based DC schemes?
- e) Are there any *Principles* or points in the *'Best practice' guidance* where further guidance may be useful to you? See Annex B for list of relevant existing guidance.

Annex A - Consolidated list of questions

Question 1

- a) How accurate is the *Table of accountabilities* and *Principle 1* in defining the roles and responsibilities of decision-makers?
- b) Do the *Table* and *Principle 1* make it clear that employers and trustees are accountable, but can delegate their responsibility to third parties, eg through clear terms of engagement with providers?
- c) How practical is it for employers and trustees to carry out their roles and responsibilities where required or to delegate them?
- d) To what extent will the documentation (eg in a governance plan or similar document) of roles and of any conflicts of interest assist in dealing with conflict issues?

Question 2

- a) What recommendations do readers have for addressing gaps in the knowledge and understanding of employers, their delegates and trustees of small schemes needing to follow this guidance?
- b) How can decision-makers best be helped to assess their own performance as decision-makers as well as the investment performance of their fund managers?

Question 3

Do the '*Best practice*' guidance points listed in *Principle 3* comprehensively cover the processes necessary to ensure that scheme members are offered appropriate investment options:

- a) at the outset
- b) in the run-up to and at retirement

Question 4

- a) Does the guidance provide appropriate parameters for setting a default strategy?
- b) To what extent, if any, might this guidance limit the possibilities for innovation in respect of default strategies?

Question 5

- a) The process of performance assessment is an essential component of best practice in investment governance decision-making. To what extent does the guidance given in *Principle 5* ensure that this process is in itself effective?

Question 6

- a) To what extent does the content and level of communications allow members to make an informed choice about funds in which to invest?
- b) The '*Best practice*' guidance here requires decision-makers to provide members with information in the run-up to and at retirement. Is it right to do this, and if so, has it been given sufficient emphasis? Is there a need for further guidance on this point?

General questions

Question 7

- a) To what extent will the proposed approach (comprising *Principles*, '*Best practice*' guidance and a *Table of accountabilities*):
- improve standards of investment decision-making and governance in the workplace DC environment and/or in your case?
 - help align decision-making in the best interests of the pension fund member?
- b) As the Principles and Guidance are presented as "best practice", do you think we should encourage decision-makers by saying "comply or explain", "justify or comply" or would you like to suggest an alternative wording?
- c) Do the *Principles* cover all the key issues? Please indicate any areas you do not agree with and reasons.

Question 8

- a) To what extent will you use the *Principles*? If not, why not?
- b) Do you currently use any existing guidance? How does it help your processes/practice?
- c) Will the *Principles* and *Table* work for both contract-based and trust-based defined contribution schemes?
- d) Are there any *Principles* or points in the '*Best practice*' guidance where further guidance may be useful to you? See Annex B for list of relevant existing guidance.

Annex B – Existing guidance and tools

A further aim of the IGG DC subgroup is to assess whether there are any gaps in the existing provision of guidance on best practice and tools for those using the DC Principles, which need to be filled. The following is a list of relevant materials which may be used already by those responsible for investment decision-making and governance.

Overarching guidance – ie relevant to all the <i>Principles</i>	
Trustee toolkit Reference guide for trustees Guide to existing legislation governing trustees <i>All published by the Pensions Regulator on its web pages</i>	
Guidance on roles, responsibilities and accountability	
Trust-based	Contract-based
Guidance on relationships with advisers <i>The Pensions Regulator, May 2008</i> Guidance on conflicts of interest <i>The Pensions Regulator, October 2008</i> Guidance on working with the employer <i>The Pensions Regulator</i>	Guide on regulation of work-based contract-based pensions <i>The Pensions Regulator, November 2007</i> Voluntary employer engagement in work-based contract-based pension schemes <i>The Pensions Regulator, January 2008</i>
Guidance on fund choice/default strategy and monitoring performance	
Good practice guide on product design <i>Association of British Insurers (ABI), April 2009 (written for service providers)</i> Designing and investment approach <i>Discussion Paper published by the Personal Accounts Delivery Authority (PADA), May 2009</i> Consultation on default options (ongoing) <i>Publication expected by early 2010 by Department of Work & Pensions (DWP)</i> Individual investment behaviour – a brief review of research <i>University of Bristol Personal Finance Research Centre, January 2009</i> Assessing Investment Consultancy Performance <i>National Association of Pension Funds (NAPF), March 2008</i> Global Investment Performance Standard Pension Fund Disclosure Code <i>Investment Management Association (IMA)</i>	

Guidance on communications with members

Research on attitudes towards investment choice and risk within the Personal Accounts Scheme: report of a qualitative study

Department of Work and Pensions, 2009

Review of retirement information for DC members

The Pensions Regulator, Nov 2009

Annex C – Glossary of terms

COBS	Conduct of Business Sourcebook
DWP	Department for Work and Pensions
DB	Defined benefit
DC	Defined contribution
FSA	Financial Services Authority
HMT	HM Treasury
IGG	Investment Governance Group
NAPF	National Association of Pension Funds
TCF	Treating Customers Fairly

Annex D – Members of the IGG DC Subgroup

Victoria Nye – Investment Management Association (Chair)

Nigel People – National Association of Pension Funds

Yvonne Braun/Helen White – Association of British Insurers

Beverley Morris – Society of Pension Consultants

Richard Parkin – Fidelity Investments

Kate Smith – Aegon

Tom Boardman – Prudential

Karl Lidgley – Kingfisher Group

Ray Martin – DHL

Keith Brown – HSBC

Rene Poisson – JP Morgan

Mark Fawcett – Personal Accounts Delivery Authority

Jonathan Lipkin – Investment Management Authority

Simon Baynes – Logica

Emma Douglas – Black Rock

Ian Costain/David Lillywhite – The Pensions Regulator

Gary Smith – Watson Wyatt

Simon Baynes – Capital Cranfield