

# Master trusts: draft application checklist

A summary of requirements and evidence you will need to consider and provide when completing your draft authorisation application, as part of the readiness review.

Under the Pension Scheme Act 2017 (the Act), we will be responsible for authorising and supervising master trusts against a number of criteria, including systems and processes, financial sustainability and the fitness and propriety of those involved in the scheme.

Before authorisation, which will start from 1 October 2018, we are inviting applicants to submit a draft application in relation to some but not all of the authorisation criteria. Master trusts completing a draft application will receive feedback from us in relation to the areas listed below (referred to as a 'readiness review'). However, we will not be giving any indication on whether or not a formal application for authorisation will be successful. For further information on the readiness review please use the detailed information at [www.tpr.gov.uk/master-trusts](http://www.tpr.gov.uk/master-trusts).

## Requirements for fit and proper individuals

As part of the readiness review process, we will not conduct any assessment into the individuals' conduct, honesty, integrity or financial soundness. Further evidence relating to this section will be required from applicants for a formal application for authorisation.

### Fit and proper

In order to obtain authorisation, we must be satisfied that those involved in the master trust are fit and proper. The regulations set out what we must take into account in our assessment, and we may also look at other matters, including those relating to a connected person. As part of the formal authorisation process, we will be assessing:

- ▶ honesty, integrity, financial soundness
- ▶ competency (at an individual and collective level for trustees / strategists)
- ▶ conduct

### Role identification form

As part of the readiness review, trustees will need to submit a 'role identification form', which will be available via the draft application portal. The form is designed to capture:

- ▶ information regarding the roles within the scheme and the individuals to which they are assigned
- ▶ an overview of the collective expertise and experience of the scheme trustees and scheme strategists

When we look at the role identification form as part of the readiness review, we will not assess the fitness and propriety of the individuals listed. We will provide an assessment and feedback in response to the correct/incorrect identification of roles in the scheme and the evidence provided regarding the collective competence of the trustees and strategists. Therefore, we will not need applicants to provide the full suite of evidence on individuals which would be required for a full application, from 1 October.

## Requirements for systems and processes

The evidence we request in this section will be very similar to the evidence required for a formal application for authorisation.

### **Systems and processes**

As part of the readiness review, applicants will be able to submit evidence to demonstrate they meet the requirements in three key areas:

- ▶ The adequacy of IT systems used by the scheme/provider/administrator.
- ▶ The robustness of the processes which monitor the ongoing effectiveness of scheme administration.
- ▶ The quality of the governance and risk management by trustees and other responsible parties.

The systems and processes requirements will be laid out in a scheme questionnaire, which will align with our code of practice and guidance, and will help applicants to present the relevant evidence.

Your evidence should demonstrate whether a system, process or governance function is present and also explain how it is tested to ensure it remains fit for purpose over time. This could include the following:

- ▶ Trustee governance documentation.
- ▶ Extracts from external assurance reports/assessments/accreditations.
- ▶ Risk management processes.
- ▶ Processes for selection and appointment of trustees and service providers.
- ▶ Processes for assessing and monitoring the ongoing skills and knowledge of trustees and those who advise them.
- ▶ Service provider contracts and/or agreements.
- ▶ Service provider due-diligence, pre-appointment.
- ▶ Processes for the monitoring of performance of service providers and advisers.

## Requirements for financial sustainability

The evidence we request in this section will be very similar to the evidence required for a formal application for authorisation.

<b>Financial sustainability</b>	<p>The master trust needs to have enough financial support to ensure it can operate on a day to day basis and to cover the cost of a triggering event (if one occurs), without increasing the cost to members. A scheme funder must be able to provide financial support to the master trust and we will be looking for clear evidence in relation to its business activities that it can do so.</p>
<b>Business plan</b>	<p>Section 9 of the Pension Schemes Act 2017 requires a scheme strategist of a master trust to prepare a business plan for the scheme. Draft Regulation 7 sets out the requirements of the business plan and Schedule 3 of the draft regulations sets out the minimum requirements of the information to be included in the business plan.</p> <p>The business plan must cover a period of at least three years and a maximum of five years. Cost and revenue projections will need to be consistent with the historic financial performance and the financial questionnaire.</p>
<b>Scheme financial details</b>	<p>Financial information relating to the master trust is required under Section 4 (2), subparagraphs (a), (c) and (d) of the Pension Schemes Act 2017. You will be asked to complete a financial questionnaire, and applicants should ensure their responses align with the business plan and continuity strategy. The questionnaire will assist applicants with the preparation of their Costs, Assets and Liquidity Plan (CALP), a term that will be explained further in the code.</p> <p>In addition to completing and uploading the financial questionnaire, you will be required to provide the following documentation as a minimum:</p> <ul style="list-style-type: none"><li>▶ Scheme's business plan</li><li>▶ Continuity strategy</li><li>▶ Scheme's latest audited accounts</li></ul>

## Scheme funder requirements

The evidence we request in this section will be very similar to the evidence required for a formal application for authorisation.

<b>Scheme funding listing</b>	<p>We recognise that there will be a diverse range of business models and funding structures among master trusts seeking authorisation. Our general view is that there is a single scheme funder, however the Pension Schemes Act 2017 recognises that, in some cases, there may be multiple scheme funders, or no scheme funder at all.</p> <p>You will therefore be asked to confirm whether the scheme is supported by scheme funders, and if so, how many. Where there is one or more you will need to provide details for each of them.</p> <p>For applicants that do not have a scheme funder, you will need to provide evidence to satisfy us that the master trust has the financial resources to meet the financial sustainability requirements of section 8(3) of the Act (see <a href="http://bit.ly/PenAct2017">http://bit.ly/PenAct2017</a>).</p>
<b>Scheme funder accounts</b>	<p>Where applicable, latest accounts for each scheme funder.</p>
<b>Scheme funder details</b>	<p>As per Section 10(2) of the Pension Schemes Act 2017, you will need to provide evidence that the scheme funder is a corporation or a partnership that is a legal person under the law by which it is governed. This evidence could include:</p> <ul style="list-style-type: none"><li>▶ Certificate of incorporation</li><li>▶ Company registration numbers</li><li>▶ Change of name certificate(s) (where appropriate)</li><li>▶ Equivalent evidence where the scheme funder has been established in an overseas jurisdiction</li></ul>
<b>Scheme funder details – s10(5) exemption</b>	<p>As set out in draft Regulation 8, a scheme funder or potential scheme funder may be exempt from the requirement in section 10(3) of the Pension Schemes Act 2017. If the scheme funder wishes to seek an exemption, they will need to submit additional information. If you are unable to supply the additional information required please provide us with the reasons why.</p> <p>An application for exemption should include the reasons the scheme funder wishes to be exempt.</p> <p style="text-align: right;">continued...</p>

## Scheme funder requirements continued...

A description of the other activities of the scheme funder which do not relate directly to the master trust.

If the scheme funder is regulated by another regulator, the name of the regulator and the basis on which the scheme funder's financial commitment to the master trust is accounted for in any capital reserves such regulator requires it to hold.

Details of the legally enforceable financial support the scheme funder will provide to the master trust.

Examples of this might include legally binding agreements enforceable in the UK or cash held in a bank account or escrow with suitable controls over its use.

An exemption application should also include the following financial information in respect of the scheme funder:

1. Actual turnover, gross margin, overheads and operating profit for the previous 12 months.
2. Cash at bank for the previous 12 months, including any undrawn overdraft facility or revolving credit facility.
3. Forecast and actual profit and loss for the previous 12 months.
4. Budget for the year to date and any variation against that budget.
5. Cash resources.
6. Cash flow forecast for the following four quarters.
7. Operating costs.
8. The extent to which any of the scheme's costs are covered by an insurance policy or policies.
9. The source of funds for maintenance of any such insurance policy.
10. Inter-company loans and other forms of funding.
11. Any additional information you consider will assist us in assessing your request for the exemption.

## Continuity strategy

The evidence we request in this section will be very similar to the evidence required for a formal application for authorisation.

### **Continuity strategy**

You should provide the continuity strategy prepared by the scheme strategist. This must set out the plan on how the trustees will protect members' interests during a triggering event period, including the strategy for deciding which continuity option to pursue.