



# Regulation brief and the Implementation Statement

What you need to do as  
Pension Scheme Trustees

# Background

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There are additional requirements for trustees of most UK pension schemes from 1 October 2020

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DB schemes will need to publish their SIP online by 1 October 2020

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Schemes going forward will need to include an implementation statement in any set of report and accounts signed after 1 October 2020.

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Schemes will need to publish their implementation statement online between 1 October 2020 and 1 October 2021

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The DWP set out new regulations in the 2018 Disclosure Amendment which required additional disclosures for trustees of most UK pension schemes. With a deadline of 1 October 2019, the Disclosure Amendment regulation required all schemes to update their Statements of Investment Principles (SIPs) to take account of financially material considerations, including Environmental, Social and Governance ("ESG") factors and climate change. **From 1 October 2020 there are additional regulatory requirements which apply to schemes' SIPs and the content of annual reports.**

## SIP update by 1 October 2020

Both DB and DC schemes will be required to update their SIPs to explain how the trustees ensure their investment managers' policies align with the trustees' own policies regarding investment decisions, remuneration, turnover costs as well as the duration of the investment arrangements. The full details of the SIP requirements are covered in the appendix.

## Implementation statement from 1 October 2020

Both DB and DC schemes will need to include an implementation statement in the scheme report and accounts and this statement will need to be published online on a publicly accessible website. The implementation statement is to provide evidence that your scheme continues to follow and act on the principles outlined in the SIP with a focus on stewardship activities, implementation of your main investment principles and ESG factors. Although the requirements for DB and DC schemes are similar there are several additional considerations for DC schemes, and we cover these in more detail on the following page.

**This brief covers the requirements affecting most DB and DC pension schemes with a focus on the implementation statement as this is a completely new section that needs to be added to the scheme's report and accounts.**

The regulations are complex in their scope and so we have gone through the documentation to summarise:

1. **Content:** We have provided both the minimum regulatory requirements and what we think a best practice approach would cover
2. **Deadlines:** The regulations are structured so some schemes will have flexibility as to whether the implementation statement is first included in the 2020 accounts or 2021 accounts
3. **Why you would go beyond box ticking:** The implementation statement can be an opportunity to engage with the regulator and your members and provide a window on the actions your scheme has taken to implement its investment policies, pursue its ESG policies and demonstrate your scheme's good governance

# Focus on implementation statement

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There are slightly different requirements for DB and DC schemes, although if your scheme has both a DB and DC section you will be required to adhere to the stricter DC guidelines in terms of content and deadline.

The implementation statement is a short report which must be included in the scheme's annual report from 1 October 2020. It should explain how the trustees have acted on the principles contained within the SIP. There is also the requirement to publish the implementation statement on a publicly accessible website.

## Content requirements

The implementation statement is to provide evidence that your scheme continues to follow and act on the principles outlined in the SIP. All statements must cover:

- the extent to which the trustees have followed their policy on engagement
- voting behaviour over the scheme's reporting year by and on behalf of the trustees, including the most significant votes cast by the trustees or on their behalf

In addition, DC schemes must go further than this and include:

- how the trustees have acted on the principles outlined in the SIP including how the default strategy is in the best interest of members
- an explanation for any changes to the SIP

Note that Additional Voluntary Contributions (AVC) sections do not need including in the implementation statement.

### Isio view on content

We feel it is important that the implementation statement goes above and beyond what can be considered the minimum in the eyes of the regulator, especially as it is to be made public for your members to read.

As the implementation statement is part of the Disclosure Amendment regulation to disclose the trustees' policies for managing financially material considerations including ESG factors, we believe that a best practice approach would detail how the trustees have implemented their policies in these areas.

In terms of DC schemes, we believe that the implementation statement should be focussed on the default strategy (if this is where most members are invested). A proportionate response to the regulation would focus quantitative analysis of voting and engagement data on the funds within the default strategy with qualitative analysis on the policies the trustees have in place to ensure that the default strategy and the self select funds are in the best interests of the members.

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We believe the implementation statement should go beyond the minimum regulatory requirements. It is an opportunity for the trustees to demonstrate to their members how they have acted in accordance with the policies contained within their SIP.

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If your 2020 scheme accounts are signed off before 1 October 2020 the first implementation statement can be included with the 2021 scheme accounts providing the accounts are signed off before 1 October 2021.

## Deadlines

The deadlines for when the implementation statement must first be included in the scheme report and accounts are the same for both DB and DC schemes, however the deadlines to publish it online do differ:

- From 1 October 2020 all schemes should include the implementation statement in the scheme's annual report
- From 1 October 2020 DC schemes will be required to publish the implementation statement on a publicly accessible website
- By 1 October 2021 DB schemes will be required to publish the implementation statement on a publicly accessible website.

### Isio view on deadlines

It is worth considering if delaying production of the implementation statement until 2021 is right for your scheme. If your scheme has a reporting year end of between 31 March 2020 and 30 September 2020 you need to be sure you can sign off your scheme accounts before 1 October 2020. Furthermore the deadline of 1 October 2021 is a hard deadline for production of the first implementation statement, so delaying production until the following year may put additional pressure on your auditors to sign off the accounts in time in 2021. If there is any doubt about when your accounts will be signed off, we recommend you exercise caution and plan to produce an implementation statement this year.

## How we can help

We have detailed knowledge of the Disclosure Amendment regulation and have worked alongside legal advisors to construct a template for the implementation statement. The implementation statement requires data collection from your investment managers, and we have a process in place to do this efficiently to ensure that your scheme meets the regulatory deadlines.

Our implementation statement takes a best practice approach in adhering to the regulatory guidelines and provides comprehensive reporting on the trustees' policies on stewardship, managing financially material risks and ESG factors.

We can work with you to meet the regulations and produce an implementation statement that goes beyond a box ticking exercise and engages with your members to demonstrate the governance policies that your scheme has in place.

# Appendix

# 2018 Disclosure Amendment - requirements and deadlines

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## Defined Benefit (DB)

### 1 October 2019

Update the SIP to include:

- financially material considerations, including ESG factors and climate change
- a policy on the stewardship of the investments

### 1 October 2020

Update the SIP to include policies in relation to the investment management arrangements, including:

- How investment managers are incentivised to align their interests with the Trustees' policies
- How investment managers are incentivised to make investment decisions over the medium to long-term
- How the evaluation of investment managers' performance and remuneration for their services are in line with the Trustees' policies
- The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangements with the investment managers

Publish the SIP on a publicly accessible website

Produce an implementation report covering:

- the extent to which the trustees have followed their policy on engagement
- voting behaviour by and on behalf of the trustees, including the most significant votes cast by the trustees or on their behalf

### 1 October 2021

Publish the implementation report on a publicly accessible website

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## Defined Contribution (DC) (100+ members)

### 1 October 2019

Update the SIP to include:

- financially material considerations, including ESG factors and climate change
- a policy on the stewardship of the investments
- an explanation of how the default strategy is in the best interest of members, and how financially material considerations including ESG factors and stewardship policies are managed

Publish the SIP on a publicly accessible website and ensure members are made aware of its availability via the annual benefit statement

### 1 October 2020

Update the SIP to include policies in relation to the investment management arrangements, including:

- How investment managers are incentivised to align their interests with the Trustees' policies
- How investment managers are incentivised to make investment decisions over the medium to long-term
- How the evaluation of investment managers' performance and remuneration for their services are in line with the Trustees' policies
- The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangements with the investment managers

Produce an implementation report, covering:

- how the trustees have followed and acted on the principles outlined in the SIP
- an explanation for any changes to the SIP
- the extent to which the trustees have followed their policy on engagement
- voting behaviour by and on behalf of the trustees, including the most significant votes cast by the trustees or on their behalf

Publish the implementation report on a publicly accessible website and ensure members are made aware of its availability via the annual benefit statement

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