

Chapter 19

Pensions supplementary provisions

19.5 Independent governance committees (IGCs) and publication and disclosure of costs and charges

Application

19.5.1 **R** This section applies to:

- (1) a *firm* which operates a *relevant scheme* in which there are at least two *relevant policyholders*; or
- (2) a *firm* which offers or has decided to offer a *pathway investment*.

Definitions

19.5.1A **R** In this section:

- (1A) “employer pension arrangements” means an arrangement where eligibility for membership of that arrangement or section is limited to the employees of a specified employer or employers;
- (1AA) “investment performance” means the investment performance of the:
 - (a) pension savings of *relevant policyholders*; or
 - (b) the drawdown fund of pathway investors;
- (1) “drawdown fund” means either a *capped drawdown pension fund* or a *flexi-access drawdown pension fund*;
- (2) “offer” means where a *firm* (F1) makes a *pathway investment* available for *investment* in the drawdown fund which F1 operates, where the *pathway investment* is either:
 - (a) *manufactured* by F1; or
 - (b) *manufactured* by another firm (F2);
- (3A) “pathway investment comparators” means other *pathway investments* (that are not provided by the *firm*) selected by an *IGC* under ■ COBS 19.5.5R(2A)(e)(i) to ■ (iii) and which:
 - (a) are individual *pathway investments*; or
 - (b) are cohorts of similar *pathway investments*;
- (3) “pathway firm” means a *firm* which offers a *pathway investment*;

- (4) “pathway investor” means a *retail client* investing in a *firm’s pathway investment*;
- (5A) “scheme comparators” means other pension arrangements (that are not provided by the *firm*) selected by an *IGC* under ■ COBS 19.5.5R(2)(e)(i) to ■ (iii) and which:
 - (a) are individual employer pension arrangements; or
 - (b) are cohorts of similar employer pension arrangements;
- (5AA) “services” refers to the services provided by a *firm* to *relevant policyholders* or pathway investors and includes:
 - (a) the communications issued to *relevant policyholders* or pathway investors; and
 - (b) the administration of the *relevant scheme* or *pathway investment*;
- (5) “referring” means a *firm* which arranges for a *retail client* to invest in a *pathway investment* available through a transfer to the drawdown fund operated by another *firm* (F2), where F2 offers its own *manufactured pathway investment*;
- (6) “stewardship” relates to a *firm’s* exercise of rights or engagement activities in relation to the *investments* attributable to the *firm’s relevant policyholders* or pathway investors, and may include:
 - (a) the exercise of a *firm’s* voting rights in those *investments*; and
 - (b) monitoring and engaging on matters such as strategy, performance, risk, culture and governance of the *investments*;
- (7) “IGC’s remit of review” means the remit of the *IGC* as described in ■ COBS 19.5.5R(2), ■ COBS 19.5.5R(2A), ■ COBS 19.5.5R(2B), ■ COBS 19.5.5R(2C), and, where applicable ■ COBS 19.5.5R(2D) and ■ COBS 19.5.5R(2E).

19.5.1B **R** [deleted]

Purpose

19.5.1B **G** The purpose of this section is:

- (1) to ensure that *relevant policyholders* and pathway investors benefit from independent review of the *investments* they invest in through the establishment of an *IGC* or (where appropriate) a *governance advisory arrangement*.

The specific objectives of the *IGC* or *governance advisory arrangement* are to:

- (a) assess whether a *firm* provides value for money for *relevant policyholders* or pathway investors;
- (b) provide an independent consideration of a *firm’s* policies on:
 - (i) *ESG financial considerations*;
 - (ii) *non-financial matters*;

- (iii) stewardship; and
- (iv) where applicable, *other financial considerations* to the extent that they pose a particular and significant risk of financial harm to the *relevant policyholders* or pathway investors.

Requirement to establish an IGC

19.5.2

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A *firm* (Firm A) must establish an *IGC*, unless:

- (1) Firm A has established a *governance advisory arrangement* in accordance with ■ COBS 19.5.3R; or
- (2) another *firm* in Firm A's group has already established an *IGC* under this section, and Firm A has made arrangements with that *IGC* to cover a *relevant scheme* operated by Firm A or a *pathway investment* offered by Firm A.

Governance advisory arrangements

19.5.3

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- (1) If a *firm* considers it appropriate, it may establish a *governance advisory arrangement* instead of an *IGC*, having regard to:
 - (a) for a *relevant scheme* operator, the size, complexity and nature of the *relevant scheme* it operates; or
 - (b) for a pathway firm, the size of the take up, or expected size of the take up, complexity and nature of the *pathway investment*.
- (2) If a *firm* has decided to establish a *governance advisory arrangement* rather than an *IGC*, this section (other than ■ COBS 19.5.9R (2), ■ COBS 19.5.9R (3), ■ COBS 19.5.10 G, ■ COBS 19.5.11 R and ■ COBS 19.5.12 G) apply to the *firm* by reading references to the *IGC* as references to the *governance advisory arrangement*.
- (3) A *firm* must establish a *governance advisory arrangement* on terms that secure the independence of the *governance advisory arrangement* and its Chair from the *firm*.

19.5.4

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- (1) *Firms* with large or complex *relevant schemes* should establish an *IGC*. For the purposes of this section, a *firm* may determine whether it has large *relevant schemes* by reference to:
 - (a) the number of *relevant policyholders* in *relevant schemes*;
 - (b) the funds under management in *relevant schemes*; and
 - (c) the number of employers contributing to *relevant schemes*.
- (2) Examples of features that might indicate complex schemes include:
 - (a) schemes that are operated on multiple information technology systems;
 - (b) schemes that have multiple charging structures;
 - (c) schemes that offer a *with-profits fund*; and
 - (d) the *firm* offers *relevant policyholders* access to investment funds it operates or which are operated by an entity with the same ownership.

- (3) A pathway firm that has, or expects to have, a large take up of a *pathway investment* should establish an *IGC*.
- (4) A *firm* may determine whether it has, or expects to have, a large take up of a *pathway investment* by reference to:
 - (a) the number of *retail clients* invested, or expected to invest, in a *pathway investment* offered by the *firm*; or
 - (b) the amount of the *firm's* pathway investors' funds under, or expected to be under management in a *pathway investment* offered by the *firm*.
- (5) Examples of features that might indicate a complex *pathway investment* include:
 - (a) a *pathway investment* that has multiple charging structures; or
 - (b) a *pathway investment* that uses a sophisticated or complex *investment strategy*, which may include *investments* in a *with-profits fund*.
- (6) Having regard to the nature of the *pathway investment*, a *firm* may consider that it is more appropriate to use a *governance advisory arrangement* where the *pathway investment* it offers is *manufactured* by another *firm*.
- (7) If a *firm manufactures* its own *pathway investment*, it may be more appropriate for the *firm* to establish an *IGC*.
- (8) A *firm* should consider establishing an *IGC* instead of a *governance advisory arrangement* if the *firm* both operates a *relevant scheme* and also *manufactures* its own *pathway investment*.

Terms of reference for an IGC

19.5.5

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A *firm* must include, as a minimum, the following requirements in its terms of reference for an *IGC*:

- (1) the *IGC* will act solely in the interests of:
 - (a) *relevant policyholders* and any other members or *clients* a *firm* asks the *IGC* to consider; or
 - (b) pathway investors;
- (2) the *IGC* will assess the ongoing value for money for *relevant policyholders* delivered by a *relevant scheme* particularly, though not exclusively, through assessing the three factors in (a) to (c) below, taking into account the specific points in (d) to (g)::
 - (a) the level of charges and costs, in particular:
 - (i) *administration charges* and any *transactions costs* borne by *relevant policyholders*; and
 - (ii) any other charges borne by *relevant policyholders* and any other costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the pension savings of *relevant policyholders*;
 - (b) investment performance; and

- (c) the quality of services including whether:
 - (i) the communications are fit for purpose and properly take into account the characteristics, needs and objectives of the *relevant policyholders*; and
 - (ii) core financial transactions are processed promptly and accurately, such as processing contributions, transfers or death benefits;
- (d) as part of the ongoing value for money assessment in (2), the *IGC* will need to consider whether to assess the *relevant scheme* by reference to employer pension arrangements on an individual basis or on an aggregated basis using cohorts of sufficiently similar employer pension arrangements, or a combination of both, to enable the *IGC* to produce a value for money assessment that is the most useful for the members of the *relevant scheme*, but which is also appropriate and proportionate in the circumstances;
- (e) as part of the ongoing value for money assessment in (2)(a)(i), (b) and (c), the *IGC* will need to:
 - (i) consider whether individual employer pension arrangements or cohorts of employer pension arrangements, or a combination of both, would be most appropriate to be part of its scheme comparators taking into account the proportionality and usefulness of each;
 - (ii) (where it selects cohorts of employer pension arrangements as part of its scheme comparators) select sufficiently similar employer pension arrangements that enable the *IGC* to produce an assessment that is the most useful for the members of the *relevant scheme*;
 - (iii) select a small number of reasonably comparable scheme comparators (including those which could potentially offer better value for money in respect of factors (2)(a)(i), (b) and (c));
 - (iv) use reasonable endeavours to obtain and compare the relevant data that it needs to carry out useful assessments in respect of the factors set out in (2)(a)(i), (b) and (c), in a manner which is proportionate to the likely member benefits that will result from the *IGC* assessing the data;
 - (v) assess the *relevant scheme* by reference to the scheme comparators based on factors (2)(a)(i), (b) and (c) (to the extent that there is publicly, or readily, available information about the scheme comparators in respect of those factors); and
 - (vi) consider whether any of the scheme comparators offer better value for money for *relevant policyholders* based on factors (2)(a)(i), (b) and (c) (to the extent that there is publicly, or readily, available information about the scheme comparators in respect of those factors);
- (f) as part of the assessment of quality of services in 2(c), the *IGC* will need to assess whether default investment strategies within those schemes:
 - (i) are designed and executed in the interests of *relevant policyholders*; and

- (ii) have clear statements of aims and objectives;
 - (g) as part of the assessment of quality of services in 2(c), the *IGC* will need to assess whether the characteristics and net performance of investment strategies are regularly reviewed by the *firm* to ensure alignment with the interests of *relevant policyholders* and that the *firm* takes action to make any necessary changes;
- (2A) the *IGC* will assess the ongoing value for money for pathway investors delivered by a *pathway investment* particularly, though not exclusively, through assessing the three factors in (a) to (c) below, taking into account the specific points in (d) to (g):
- the level of charges and costs in particular:
- (i) *administration charges* and any *transactions costs* borne by pathway investors; and
 - (ii) any other charges borne by pathway investors and any other costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the drawdown fund of pathway investors;
- investment performance; and
- the quality of services including whether:
- (i) the communications are fit for purpose and properly take into account the characteristics, needs and objectives of the pathway investors; and
 - (ii) core financial transactions are processed promptly and accurately, such as processing contributions, transfers or death benefits;
- as part of the ongoing value for money assessment in (2A), the *IGC* will need to consider whether to assess the *pathway investment* on an individual basis or on an aggregated basis using cohorts of sufficiently similar *pathway investments*, or a combination of both, to enable the *IGC* to produce a value for money assessment that is the most useful for the pathway investors, but which is also appropriate and proportionate in the circumstances;
- as part of the ongoing value for money assessment in (2A)(a)(i), (b) and (c), the *IGC* will need to:
- (i) consider whether individual *pathway investments* or cohorts of *pathway investments*, or a combination of both, would be most appropriate to be part of pathway investment comparators taking into account the proportionality and usefulness of each;
 - (ii) (where it selects cohorts of *pathway investments* as part of its pathway investment comparators) select sufficiently similar *pathway investments* that enable the *IGC* to produce an assessment that is the most useful for the pathway investors;
 - (iii) select a small number of reasonably comparable pathway investment comparators (including those which could potentially offer better value for money in respect of factors (2A)(a)(i), (b) and (c));
 - (iv) use reasonable endeavours to obtain and compare the relevant data that it needs to carry out useful assessments in

- respect of the factors set out in (2A)(a)(i), (b) and (c), in a manner which is proportionate to the likely pathway investor benefits that will result from the *IGC* assessing the data;
- (v) assess the *pathway investment* by reference to the pathway investment comparators based on factors (2A)(a)(i), (b) and (c) (to the extent that there is publicly, or readily, available information about the pathway investment comparators in respect of those factors); and
 - (vi) consider whether any of the pathway investment comparators offer better value for money for pathway investors based on factors (2A)(a)(i), (b) and (c) (to the extent that there is publicly, or readily, available information about the pathway investment comparators in respect of those factors);
- (f) as part of the assessment of quality of services in (2A)(c), the *IGC* will need to assess whether the *pathway investment* offered by the *firm*:
- (i) is designed and managed in the interests of pathway investors; and
 - (ii) has a clear statement of aims and objectives;
- (g) as part of the assessment of quality of services in (2A)(c), the *IGC* will need to assess whether the characteristics and net performance of the *pathway investment* are regularly reviewed by the *firm* to ensure alignment with the interests of pathway investors and that the *firm* takes action to make any necessary changes;
- (2B) where a *firm* has an *investment strategy* or makes *investment decisions* which could have a material impact on the *relevant policyholders'* or pathway investors' *investment returns*, the *IGC* will consider and report on:
- (a) the adequacy and quality of the *firm's* policy (if any) in relation to *ESG financial considerations*;
 - (b) the adequacy and quality of the *firm's* policy (if any) in relation to *non-financial matters*; and
 - (c) how the considerations or matters in (a) and (b) are taken into account in the *firm's investment strategy* or *investment decision making*; and
 - (d) the adequacy and quality of the *firm's* policy (if any) in relation to *stewardship*;
- (2C) where the *firm* does not have a policy in relation to *ESG financial considerations*, *non-financial matters* or *stewardship*, the *IGC* will in each case consider and report on the *firm's* reasons for not having a policy;
- (2D) where the *firm* has not already adequately taken into account, in its *investment strategy* or *investment decision making*, *other financial considerations* that pose a particular and significant risk of financial harm to the *relevant policyholders* or pathway investors, the *IGC* will also:

- (a) consider and report on the adequacy and quality of the *firm's* policy (if any) in relation to those *other financial considerations*, and whether and how those considerations are taken into account in the *firm's investment* strategy or *investment* decision; or
 - (b) consider and report on the *firm's* reasons for not having a policy in relation to those considerations;
- (2E) the *IGC* will consider and report on the extent to which the *firm* has implemented its stated policies in relation to the considerations and matters in (2B), (2C), and, where applicable (2D);
- (3) in relation to the *IGC's* remit of review, the *IGC* will raise with the *firm's governing body* any concerns it may have:
- (a) in relation to any of the matters it has assessed or considered; or
 - (b) where the *IGC* is unable to obtain or has difficulties obtaining from the *firm* the information it requires;
- (3A) once a decision has been made by a *firm* to offer a *pathway investment*, the *IGC* must raise any concerns under (3):
- (a) in good time to give the *firm's governing body* a proper opportunity to consider and address the *IGC's* concerns, before the *pathway investment* is offered to *retail clients*; and
 - (b) on an ongoing basis in relation to the *pathway investment* it offers;
- (4) the *IGC* will escalate concerns as appropriate where the *firm* has not, in the *IGC's* opinion, addressed those concerns satisfactorily or at all;
- (5) the *IGC* will meet, or otherwise make decisions to discharge its duties, using a quorum of at least three members, with the majority of the quorum being independent;
- (6) the Chair of the *IGC* will be responsible for the production of an annual report setting out the following, in sufficient detail, taking into account the information needs of *consumers*:
- (a) the *IGC's* opinion on:
 - (i) the value for money delivered by a *relevant scheme* or a *pathway investment*, particularly against the matters listed under (2) or (2A) and a statement setting out their overall assessment of whether the *relevant scheme* or *pathway investment* provides value for money; and
 - (ii) the adequacy and quality of the *firm's* policies, or reasons for not having policies, in relation to the considerations and matters listed under (2B), (2C) and (if applicable) (2D);
 - (aa) the extent to which the *firm* has implemented its stated policies in relation to the consideration and matters in (2B), (2C) and (if applicable) (2D);
 - (ab) an explanation of how the *IGC* carried out their assessment of ongoing value for money. This must include demonstrating how the factors set out in (2)(a) to (c) or (2A)(a) to (c) have been fully and properly considered;

- (ac) the reasons:
- (i) for the *IGC's* overall assessment of whether the *relevant scheme* or *pathway investment* provides value for money as required under (6)(a)(i);
 - (ii) (in relation to a *relevant scheme* only), where the *IGC* assessed the *relevant scheme* using cohorts of employer pension arrangements for the purposes of its general assessment in (2)(d) or used cohorts as part of the scheme comparators in (2)(e), why the *IGC* considers it is appropriate and proportionate to use cohorts and the *IGC's* reasons for using the characteristics that it used to select the cohorts;
 - (iii) (in relation to a *relevant scheme* only), why the *IGC* considers that the scheme comparators it selected for the purposes of its assessment under (2)(e) provided a reasonable comparison against the *relevant scheme*;
 - (iv) (in relation to a *pathway investment* only), where the *IGC* assessed the pathway investment using cohorts of *pathway investments* for the purposes of its general assessment in (2A)(d) or used cohorts as part of the *pathway investment* comparators in (2A)(e), why the *IGC* considers it is appropriate and proportionate to use cohorts of *pathway investments* and the *IGC's* reasons for using the characteristics that it used to select the cohorts; and
 - (v) (in relation to a *pathway investment* only) why the *IGC* considers that the pathway investment comparators it selected for the purposes of its assessment under (2A)(e) provided a reasonable comparison against the *pathway investment*;
- (b) how the *IGC* has considered *relevant policyholders'* or pathway investors' interests;
- (c) any concerns raised by the *IGC* with the *firm's governing body* and the response received to those concerns;
- (d) how the *IGC* has sufficient expertise, experience and independence to act in *relevant policyholders'* or pathway investors' interests;
- (e) how each independent member of the *IGC*, together with confirmation that the *IGC* considers these members to be independent, has taken into account ■ COBS 19.5.12 G;
- (f) the arrangements put in place by the *firm* to ensure that the views of *relevant policyholders* or pathway investors' are directly represented to the *IGC*; and
- (g) administration charges and transaction costs information complying with the requirements in ■ COBS 19.5.16R;
- (7) the Chair of the *IGC* will ensure the annual report is produced by 30 September each year, in respect of the previous calendar year;
- (8) the *IGC* will ensure the publication of administration charges and transaction costs information complying with the requirements in ■ COBS 19.5.13R;

- (9) the *IGC* will ensure that all members of each *relevant scheme* are provided with an annual communication complying with the requirements in ■ COBS 19.5.17R;
- (10) the *IGC* will make available the annual communication referred to in (9), on request, to:
 - (a) *relevant scheme* members' spouses or civil partners; and
 - (b) persons within the application of the *relevant scheme* and qualifying or prospectively qualifying for benefits under the *relevant scheme*;
- (11) the *IGC* will ensure that information is communicated under this *rule* in a manner that pays due regard to the purposes for which *relevant policyholders* might reasonably use the information; and
- (12) the *IGC* will retain copies of any evidence used in their assessment of ongoing value for money for a minimum of six years.

Value for money assessment

19.5.5A

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- (1) In the context of the *IGC's* assessment of ongoing value for money for *relevant policyholders* or pathway investors under ■ COBS 19.5.5R(2) or ■ COBS 19.5.5R(2A):
 - (a) the *administration charges* and *transaction costs* borne by *relevant policyholders* or pathway investors are likely to represent value for money when the combination of the charges and costs, and the investment performance and services are appropriate:
 - (i) for the *relevant policyholders* or pathway investors, and
 - (ii) when compared to other reasonably comparable options on the market.
 - (b) As part of the *IGC's* assessment under (1)(a)(i) regarding what is appropriate for *relevant policyholders*, the *IGC* should consider the size of the employer and the size and demographic of the membership of the *relevant scheme*.
 - (c) The *IGC* should not use a *firm's* compliance with the limits on *administration charges* (■ COBS 19.6.6R), of itself, as evidence of value for money.
 - (d) Where the limits on *administration charges* in ■ COBS 19.6.6R do not apply, the *IGC* should not use the fact that a *firm* keeps its *administration charges* at or below 1%, of itself, as evidence of value for money.
- (2) The *IGC* should take into account the considerations in (3), as part of the *IGC's*:
 - (a) decision referred to in ■ COBS 19.5.5R(2)(d) about whether to carry out its ongoing value for money assessment of the *relevant scheme* by assessing the employer pension arrangements on an individual or cohort basis; or
 - (b) selection of scheme comparators under ■ COBS 19.5.5R(2)(e)(i) to ■ (iii).
- (3) The considerations referred to in (2) are:

- (a) the size and demographic of the membership of the individual employer pension arrangements and/or any proposed cohorts;
 - (b) (where cohorts are proposed), any other characteristics that it would be appropriate and proportionate for the *IGC* to use, in the particular circumstances of the *relevant scheme*, as part of its cohort selection criteria; and
 - (c) (if the *IGC* has used cohorts of employer pension arrangements in any part of its ongoing value for money assessment under ■ COBS 19.5.5R(2)) whether it would be appropriate and proportionate also to assess any particular employer pension arrangements within the cohorts on an individual basis in order to be able to carry out the most useful assessment under ■ COBS 19.5.5R(2).
- (4) The *IGC* should take into account the considerations in (5), as part of the *IGC*'s:
- (a) decision referred to in ■ COBS 19.5.5R(2A)(d) about whether to carry out its ongoing value for money assessment of the *pathway investment* by assessing the *pathway investment* on an individual or cohort basis; or
 - (b) selection of pathway investment comparators under ■ COBS 19.5.5R(2A)(e)(i) to ■ (iii).
- (5) The considerations referred to in (4) are:
- (a) (where cohorts are proposed), any characteristics that it would be appropriate and proportionate for the *IGC* to use, in the particular circumstances of the *pathway investment*, as part of its cohort selection criteria; and
 - (b) (if the *IGC* has used cohorts of *pathway investments* in any part of its ongoing value for money assessment under ■ COBS 19.5.5R(2A)) whether it would be appropriate and proportionate also to assess any particular *pathway investments* within the cohorts on an individual basis in order to be able to carry out the most useful assessment under ■ COBS 19.5.5R(2A).
- (6) As part of the *IGC*'s selection of scheme comparators or investment pathways comparators under ■ COBS 19.5.5R(2)(e)(i) to ■ (iii) or ■ COBS 19.5.5R(2A)(e)(i) to ■ (iii), the *IGC* will need to include scheme comparators or pathway investment comparators that potentially offer better value for money in respect of the factors set out in ■ COBS 19.5.5R(2)(a)(i), ■ (b) and ■ (c) or ■ COBS 19.5.5R(2A)(a)(i), ■ (b) and ■ (c) (based on whatever information is publicly, or readily, available and is relevant to those factors).
- (7) There is no expectation by the *FCA* that the *IGC* would carry out a comparison of all the comparable employer pension arrangements or all of the comparable *pathway investments* for the purposes of ■ COBS 19.5.5R(2)(e) or ■ COBS 19.5.5R(2A)(e).

Interests of relevant policyholders or pathway investors and consideration of adequacy and quality of a policy

19.5.6

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- (1) An IGC is expected to act in the interests of *relevant policyholders* or pathway investors both individually and collectively. Where there is the potential for conflict between individual and collective interests, the IGC should manage this conflict effectively. An IGC is not expected to deal directly with complaints from individual policyholders or pathway investors.
- (2) The primary focus of an IGC should be the interests of *relevant policyholders* or pathway investors in accordance with ■ COBS 19.5.5R(1). If a *firm* asks an IGC also to consider the interests of other members or *clients*, the *firm* should provide additional resources and support to the IGC such that the IGC's ability to act in the interests of *relevant policyholders* or pathway investors is not compromised.
- (3) An IGC should assess whether all the investment choices available to *relevant policyholders* or pathway investors, including default options, are regularly reviewed to ensure alignment with the interests of *relevant policyholders* or pathway investors.
- (4) Where an IGC is unable to obtain from a *firm*, and ultimately from any other person providing relevant services, the information it requires to assess or to consider and report on the matters in the IGC's remit of review, the IGC should explain in the annual report why it has been unable to obtain the information and how it will take steps to be granted access to that information in the future.
- (5A) In addition to the ability of the IGC to escalate a concern about value for money under (5), if the IGC finds that:
 - (a) any of the scheme comparators offer better value for money for *relevant policyholders* than the *relevant scheme* based on the factors set out in ■ COBS 19.5.5R(2)(a)(i), ■ (b) and ■ (c); or
 - (b) any of the investment pathway comparators offer value for money for pathway investors than the *pathway investment* based on the factors set out in ■ COBS 19.5.5R(2A) (a)(i), ■ (b) and ■ (c),
 the IGC should bring this matter, together with an explanation and relevant evidence, to the attention of the *firm's governing body*.
- (5AA) If the IGC is not satisfied with the response of the *firm's governing body* to the concerns it has raised under (5A) and the IGC considers that informing the relevant employer or employers could be of material utility to the employers or the members regarding the IGC's concern about value for money under (5), the IGC should inform the relevant employer or employers directly.
- (5AAA) In (5AA), an example of circumstances where an IGC may consider that informing the employer would be unlikely to be of material utility is where there are solely deferred members in any affected employer pension arrangement and the employer does not have the ability to effect a transfer of the deferred benefits from the employer pension arrangement to a new arrangement.
- (5) If, having raised concerns with the *firm's governing body* about the matters in the IGC's remit of review, the IGC is not satisfied with the

response of the *firm's governing body*, the IGC Chair may escalate concerns to the FCA if the IGC thinks that would be appropriate. The IGC may also alert *relevant policyholders* or pathway investors and employers and make its concerns public.

- (6) The IGC Chair should raise with the *firm's governing body* any concerns that the IGC has about the information or resources that the *firm* provides, or arrangements that the *firm* puts in place to ensure that the views of *relevant policyholders* or pathway investors are directly represented to the IGC. If the IGC is not satisfied with the response of the *firm's governing body*, the IGC Chair may escalate its concerns to the FCA, if appropriate. The IGC may also make its concerns public.
- (7) The IGC should make public the names of those members of the IGC who are *employees* of the provider *firm*, unless there are compelling reasons not to do so. The IGC should consult *employee* members as to whether there are such reasons.

The IGC need not consider and report on *ESG financial considerations* or *non-financial matters* or *stewardship* or *other financial considerations* as set out in ■ COBS 19.5.5R(2B) and ■ COBS 19.5.5R(2D) if the *firm* does not have an *investment strategy* or make *investment decisions* which could have a material impact on the *relevant policyholders'* or pathway investors' *investment returns*.

The IGC should only consider and report on *other financial considerations* as set out in ■ COBS 19.5.5R(2D) where it considers that:

they are likely to pose a particular and significant risk of financial harm to the *relevant policyholders* or pathway investors; and

the *firm* has not already adequately taken those *other financial considerations* into account in its *investment strategy* or *investment* decision making.

- (10) When an IGC is considering the adequacy and quality of a *firm's* policies regarding *ESG financial considerations*, *non-financial matters*, *stewardship* or *other financial considerations*, the IGC should form a view as to whether:
- (a) a policy sufficiently characterises the relevant risks or opportunities;
 - (b) it considers that a policy seeks to appropriately mitigate those risks and take advantage of those opportunities;
 - (c) a *firm's* processes have been designed to properly take into account those risks or opportunities;
 - (d) a policy is appropriate in the context of the expected duration of the *investment*; and
 - (e) a policy is appropriate in the context of the main characteristics of the actual or expected *relevant policyholders* or pathway investors.
- (11) Where an IGC is considering whether a *firm* has adequately taken *other financial considerations* into account for the purposes of

- COBS 19.5.5R(2D), it should also take into account the factors in
- COBS 19.5.6(10)G, whether or not contained in a policy.

Duties of firms in relation to an IGC

19.5.7

R

A firm must:

- (1) take reasonable steps to ensure that the *IGC* acts and continues to act in accordance with its terms of reference;
- (2) take reasonable steps to provide the *IGC* with all information reasonably requested by the *IGC* in good time for the purposes of carrying out its role;
- (3) provide the *IGC* with sufficient resources as are reasonably necessary to allow it to carry out its role independently;
- (4) have arrangements to ensure that the views of *relevant policyholders* or pathway investors can be directly represented to the *IGC*;
- (5) take reasonable steps to address any concerns raised by the *IGC* under its terms of reference;
- (5A) for any *pathway investment*, take reasonable steps to address any concerns raised by the *IGC* about the matters in ■ COBS 19.5.5R(3) and ■ (3A):
 - (a) before the *firm* offers the *pathway investment*, and
 - (b) promptly, for any *pathway investment* it already offers.
- (6) provide written reasons to the *IGC* as to why it has decided to depart in any material way from any advice or recommendations made by the *IGC* to address any concerns it has raised;
- (7) take all necessary steps to facilitate the escalation of concerns by the *IGC* under ■ COBS 19.5.5R (4) and ■ COBS 19.5.6G (5);
- (8) make available the *IGC's* terms of reference and the three most recent annual reports, in a way appearing to the *firm* to be best calculated to bring them to the attention of *relevant policyholders* and their employers or to the attention of pathway investors; and
- (9) provide each *relevant scheme's IGC* with administration charges and transaction costs information, setting out the costs and charges for each default arrangement and each alternative fund option that the member is able to select.

19.5.8

G

- (1) A *firm* should consider allocating responsibility for the management of the relationship between the *firm* and its *IGC* to a person at the *firm* holding an *FCA significant-influence function* or *designated senior management function*.
- (2) A *firm* should fund independent advice for the *IGC* if this is necessary and proportionate.

- (3) A *firm* should not unreasonably withhold from the *IGC* information that would enable the *IGC* to carry out its duties in the *IGC's* remit of review.
- (3A) A *firm* should provide the *IGC* with sufficient support and resources so that the *IGC* is properly able to carry out its duties in the *IGC's* remit of review.
- (4) A *firm* should have arrangements for sharing confidential and commercially sensitive information with the *IGC*.
- (5) A *firm* should use best endeavours to obtain, and should provide the *IGC* with, information on the costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the assets of a *relevant scheme* or which could impact a *pathway investment*, including transaction costs. Information about costs and charges more broadly should also be provided, so that the *IGC* can properly assess the value for money of a *relevant scheme* or a *pathway investment* and the funds held within these.
- (6) If a *firm* asks an *IGC* to take on responsibilities in addition to those in ■ COBS 19.5.5 R, the *firm* should provide additional resources and support to the *IGC* such that its ability to act within its terms of reference in ■ COBS 19.5.5 R is not compromised.
- (7) A *firm* should provide secretarial and other administrative support to the *IGC*. The nature of the support, including how it is provided and by whom, should not conflict with the *IGC's* ability to act independently of the *firm*.
- (8) A *firm* can make the *IGC's* terms of reference and the *IGC's* three most recent annual reports available in a way designed to bring them to *relevant policyholders'* and their employers' attention or to the attention of pathway investors by placing them in an appropriately prominent and relevant position on its website, and by providing them on request to relevant policyholders and their employers or to pathway investors.

Appointment of IGC members

19.5.9

R

- (1) A *firm* must take reasonable steps to ensure that the *IGC* has sufficient collective expertise and experience to be able to make judgements on the matters in the *IGC's* remit of review.
- (2) A *firm* must recruit independent *IGC* members through an open and transparent recruitment process.
- (3) A *firm* must appoint members to the *IGC* so that:
 - (a) the *IGC* consists of at least five members, including an independent Chair and a majority of independent members;
 - (b) *IGC* members are bound by appropriate contracts which reflect the terms of reference in ■ COBS 19.5.5 R, and on such terms as to secure the independence of independent members;
 - (c) independent *IGC* members who are individuals are appointed for fixed terms of no longer than five years, with a cumulative maximum duration of ten years;

- (d) individuals acting as the representative of an independent corporate member are appointed to the *IGC* for a maximum duration of ten years;
- (e) independent *IGC* members who are individuals, including those representing independent corporate members, are not eligible for reappointment to the *IGC* until five years have elapsed, after having served on the *firm's IGC* for the maximum duration of ten years;
- (f) appointments to the *IGC* are managed to maintain continuity in terms of expertise and experience of the *IGC*.

- 19.5.10 G
- (1) The effect of ■ COBS 19.5.9R (3)(b) is that *employees* of the *firm* who serve on an *IGC* should be subject to appropriate contractual terms so that, when acting in the capacity of an *IGC* member, they are free to act within the terms of reference of the *IGC* without conflict with other terms of their employment. In particular, when acting as an *IGC* member, an *employee* will be expected to act solely in the interests of *relevant policyholders* or pathway investors and should be able to do so without breaching any terms of their employment contract.
 - (2) An individual may serve on more than one *IGC*.
 - (3) A *firm* should replace any vacancies that arise within *IGCs* as soon as possible and, in any event, within six months.
 - (4) A *firm* should involve the *IGC* Chair in the appointment and removal of other members, both independent members and *employees* of the *firm*.
 - (5) A *firm* should consider indemnifying *IGC* members against any liabilities incurred while fulfilling their duties as *IGC* members.

IGC members who are independent

- 19.5.11 R The *firm*, in appointing independent *IGC* members, must determine whether such a member is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, that member's judgement.

- 19.5.12 G
- (1) An *IGC* member is unlikely to be considered independent if any of the following circumstances exist:
 - (a) the individual is an *employee* of the *firm* or of a company within the *firm's group* or paid by them for any role other than as an *IGC* member, including participating in the *firm's* share option or performance-related pay scheme;
 - (b) the individual has been an *employee* of the *firm* or of another company within the *firm's group* within the five years preceding his appointment to the *IGC*;
 - (c) the individual has, or had within the three years preceding his appointment, a material business relationship of any description with the *firm* or with another company within the *firm's group*, either directly or indirectly.

- (2) A *firm* may appoint a *body corporate* to an *IGC*, including as Chair. The corporate member should notify the *firm* of the individual who will act as the member's representative on the *IGC*. A *firm* should consider the circumstances of a corporate *IGC* member and any representative of the corporate member with the objective of ensuring that any potential conflicts of interest are managed effectively so that they do not affect the corporate *IGC* member's ability to represent the interests of *relevant policyholders* or pathway investors.
- (3) Should the *firm*, or another company within the *firm's group*, operate a mastertrust, there may be benefits in a trustee of such a mastertrust also being an *IGC* member. If such circumstances exist, an individual or a corporate trustee may be suitable to be an independent *IGC* member, notwithstanding the relationship with the *firm*.
- (4) A *firm* should review on a regular basis whether its independent *IGC* members continue to be independent and take appropriate action if it considers that they are not.

Publication and disclosure of costs and charges by IGCs

19.5.13

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The administration charges and transactions costs information referred to in ■ COBS 19.5.5R(8) must, in relation to each *relevant scheme*:

- (1) be published by 30 September each year, in respect of the previous calendar year;
- (2) be available for free on a publicly accessible website;
- (3) include the costs and charges for each default arrangement and each alternative fund option that a member is able to select; and
- (4) include an illustration of the compounding effect of the administration charges and transaction costs, based on either the assumptions contained in ■ COBS 13 Annex 2 or those in Version 4.2 of the Actuarial Standard Technical Memorandum (AS TM1) produced by the Financial Reporting Council, for a representative range of fund options that a member is able to select.

19.5.14

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Regarding transaction costs:

- (1) the requirements in ■ COBS 19.5.13R(3) and ■ COBS 19.5.16R(1) apply to the extent that such information is available to the *IGC*; and
- (2) the published information should include a warning giving brief details of any unavailable information that the *IGC* is aware of.

19.5.15

G

An example of the type of illustration referred to in ■ COBS 19.5.13R(4) is shown below. The assumptions in the notes should reflect the actual assumptions used.

Projected pension pot in today's money

Fund choice

Years	Default Ar- rangement		Fund A		Fund B		Fund C	
	Before charges + costs deducted	After all charges + costs deducted	Before charges + costs deducted	After all charges + costs deducted	Before charges + costs deducted	After all charges + costs deducted	Before charges + costs deducted	After all charges + costs deducted
1								
3								
5								
10								
15								
20								
25								
30								
35								
40								

Example notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £10,000.
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed from age 22 to 68 and increase in line with assumed earnings inflation of 2.5% to 4% each year.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rate for each fund are as follows:
 - Default fund: 2.5% above inflation
 - Fund A: 2% above inflation
 - Fund B: 1% above inflation
 - Fund C: 1% below inflation

19.5.16 R The administration charges and transaction costs information in the *IGC's* annual report referred to in ■ COBS 19.5.5R(6)(g) must, in relation to each *relevant scheme*:

- (1) at a minimum, include the costs and charges for each default arrangement;
- (2) explain how a *relevant scheme* member can access the costs and charges information for each default arrangement and each alternative fund option that a member is able to select, including providing a link to the website required by ■ COBS 19.5.13R(2); and
- (3) be published alongside any information in the *IGC's* annual report relating to the *relevant scheme's* default investment strategy and value for members.

- 19.5.17** **R** The annual communication referred to in **■ COBS 19.5.5R(9)** must:
- (1) include a brief description of the most recent transaction costs and administration charges information that has been published in accordance with **■ COBS 19.5.13R**, and an explanation of how that information is relevant to the *relevant scheme* member; and
 - (2) explain how a *relevant scheme* member can access the information referred to in (1), including providing a link to the website required by **■ COBS 19.5.13R(2)**.
- 19.5.18** **G** The annual communication may be included with any other annual communication from the *operator* to the member of the *relevant scheme*.
- 19.5.19** **G** The annual communication provided to a *relevant scheme* member may also include the particular transaction costs and administration charges that have been incurred by that member.
- 19.5.20** **G** In communicating information in compliance with **■ COBS 19.5.5R(11)**, the *IGC* should ensure, for example, that it is straightforward for a *relevant scheme* member to compare the transaction costs and administration charges between fund options that are available for them to select.