

**PERSONAL PENSION SCHEMES (INDEPENDENT GOVERNANCE  
COMMITTEES) INSTRUMENT 2015**

**Powers exercised**

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (General rule-making power);
  - (2) section 137T (General supplementary powers); and
  - (3) section 139A (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 6 April 2015.

**Amendments to the FCA Handbook**

- D. The Glossary is amended in accordance with Annex A to this instrument.
- E. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument.

**Citation**

- F. This instrument may be cited as the Personal Pension Schemes (Independent Governance Committees) Instrument 2015.

By order of the Board of the Financial Conduct Authority  
29 January 2015

## Annex A

### Amendments to the Glossary of definitions

In this annex, underlining indicates new text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical place. The text is not underlined.

*governance advisory arrangement* (in COBS 19.5) an arrangement between a *firm* and a third party under which the third party establishes a committee to represent the interests of *relevant policyholders* in the *firm's relevant schemes*.

*IGC* (in COBS 19.5) an independent governance committee established by a *firm* with terms of reference which satisfy COBS 19.5.5R with the purpose, in summary, to represent the interests of *relevant policyholders* in the *firm's relevant schemes*.

*relevant policyholder* (in COBS 19.5) a member of a *relevant scheme* who is or has been a worker entitled to have contributions paid by or on behalf of his employer in respect of that *relevant scheme*.

‘Worker’ has the same meaning as in section 88 of the Pensions Act 2008, that is, in summary, an individual who has entered into or works under (a) a contract of employment, or (b) any other contract by which the individual undertakes to do work or perform services personally for another party to the contract.

Amend the following as shown.

*relevant scheme* ...

(3) (in COBS 19.5) a *personal pension scheme* or *stakeholder pension scheme* for which direct payment arrangements are, or have been, in place, and under which contributions have been paid for two or more *employees* of the same employer.

‘Direct payment arrangements’ has the same meaning as in section 111A of the Pension Schemes Act 1993, that is, arrangements under which contributions fall to be paid by or on behalf of the employer towards the scheme (a) on the employer’s own account (but in respect of the employee); or (b) on behalf of the employee out of deductions from the employee’s earnings.

## Annex B

### Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, all the text is new and is not underlined

In COBS 19 (Pensions supplementary provisions) insert the following new section after COBS 19.4.

#### 19.5 Independent governance committees (IGCs)

##### Application

- 19.5.1 R This section applies to a *firm* which operates a *relevant scheme* in which there are at least two *relevant policyholders*.

##### Requirement to establish an IGC

- 19.5.2 R (1) Subject to COBS 19.5.3R, a *firm* must establish an *IGC*.
- (2) This *rule* does not apply to a *firm* ('Firm A') if another *firm* in Firm A's *group* has made arrangements under this section for an *IGC* to cover *relevant schemes* operated by Firm A.

##### Governance advisory arrangements

- 19.5.3 R (1) If a *firm* considers it appropriate, having regard to the size, nature and complexity of the *relevant schemes* it operates, it may establish a *governance advisory arrangement* instead of an *IGC*.
- (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 19.5.10G, COBS 19.5.11R and COBS 19.5.12G) 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 G (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.

Terms of reference for an IGC

- 19.5.5 R 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 *relevant policyholders*;
  - (2) the *IGC* will assess the ongoing value for money for *relevant policyholders* delivered by *relevant schemes* particularly, though not exclusively, through assessing:
    - (a) whether default investment strategies within those schemes:
      - (i) are designed and executed in the interests of *relevant policyholders*;
      - (ii) have clear statements of aims and objectives;
    - (b) 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;
    - (c) whether core scheme financial transactions are processed promptly and accurately;
    - (d) the levels of charges borne by *relevant policyholders*; and
    - (e) the direct and indirect 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*, including transaction costs;
  - (3) the *IGC* will raise with the *firm's governing body* any concerns it may have in relation to the value for money for *relevant policyholders* delivered by a *relevant scheme*;
  - (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:
  - (a) the *IGC's* opinion on the value for money delivered by *relevant schemes*, particularly against the matters listed under (2);
  - (b) how the *IGC* has considered *relevant policyholders'* 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'* 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 19.5.12G*;
  - (f) the arrangements put in place by the *firm* to ensure that the views of *relevant policyholders* are directly represented to the *IGC*.

- 19.5.6 G (1) An *IGC* is expected to act in the interests of *relevant policyholders* 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.
- (2) The primary focus of an *IGC* should be the interests of *relevant policyholders*. Should a *firm* ask an *IGC* to consider the interests of other members, 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* is not compromised.
- (3) An *IGC* should assess whether all the investment choices available to *relevant policyholders*, including default options, are regularly reviewed to ensure alignment with the interests of *relevant policyholders*.
- (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 the matters in *COBS 19.5.5R(2)*, 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.

- (5) If, having raised concerns with the firm's *governing body* about the value for money offered to *relevant policyholders* by a *relevant scheme*, 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* 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* 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 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.

#### 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* 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* can be directly represented to the *IGC*;
  - (5) take reasonable steps to address any concerns raised by the *IGC* under its terms of reference;
  - (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); and
  - (8) make the terms of reference and the annual report of the *IGC* publicly available.
- 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*.

- (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 a comprehensive assessment of value for money.
- (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 *relevant schemes*, 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 *relevant schemes* and the funds held within these.
- (6) If a *firm* asks an *IGC* to take on responsibilities in addition to those in *COBS 19.5.5R*, the *firm* should provide additional resources and support to the *IGC* such that its ability to act within its terms of reference in *COBS 19.5.5R* 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 terms of reference for the *IGC* and the annual report of the *IGC* publicly available by placing them on its website and by providing them on request to *relevant policyholders* and their employers.

#### 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 value for money of *relevant schemes*.
  - (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 19.5.5R*, 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* and should be able to do so without breaching any terms of his 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*.
- (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.