

Independent Governance Committees: extension of remit

Policy Statement

PS19/30

17 December 2019

This relates to

Consultation Paper 19/15
which is available on our website at
www.fca.org.uk/publications

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1 Overview

Summary

- 1.1** Independent Governance Committees (IGCs) currently provide independent oversight of the value for money of workplace personal pensions in accumulation ie before pension savings are accessed. They act on behalf of consumers who are likely to be less engaged with their pension savings.
- 1.2** Firms which offer workplace personal pensions in accumulation, like life insurers and some self-invested personal pension (SIPP) operators, are currently required to have an IGC, or in some circumstances a Governance Advisory Arrangement (GAA). A GAA is a proportionate alternative to an IGC for firms with a smaller number of relevant consumers and less complex schemes. In this Policy Statement (PS), where we say IGCs we mean GAAs as well, unless we state otherwise.
- 1.3** This PS follows Consultation Paper (CP) 19/15. It summarises the feedback we received to that consultation and our responses. It also sets out our final rules and guidance.
- 1.4** We are publishing final rules to extend the remit of IGCs in 2 areas:
- a new duty for IGCs to consider and report on their firm's policies on environmental, social and governance (ESG) issues, member concerns and stewardship, for the products that IGCs oversee
 - a new duty for IGCs to oversee the value for money of investment pathway solutions for pension drawdown (pathway solutions)
- 1.5** We are also publishing related guidance for providers of pension products and providers of investment-based life insurance products.

Who this affects

- 1.6** The new rules and guidance will mainly affect:
- firms that intend to provide pathway solutions and that provide workplace personal pensions
 - IGCs and GAAs
 - third party firms that provide GAAs or are considering whether to provide GAAs
 - consumer representative groups with an interest in ESG issues and pensions
 - all firms that provide pension products and all life insurers that provide investment-based life insurance products
- 1.7** The rules will also be relevant to stakeholders with an interest in pensions and retirement issues, including:
- individuals and firms providing advice and information in this area

- distributors of financial products, in particular retirement income products
- trade bodies representing financial services firms
- charities and other organisations with an interest in the ageing population and financial services

1.8 Consumers will also be affected by the new rules. Extending the remit of IGCs is intended to benefit consumers in workplace personal pension schemes in accumulation and, in the future, consumers in pension decumulation using pathway solutions.

Outcomes we are seeking

1.9 Our overall objective is to help make sure that the pensions sector delivers good outcomes for consumers with workplace personal pensions and, in the future, pathway solutions.

1.10 Our rules requiring IGCs to consider and report on the firm's policies on ESG issues (including climate change) and stewardship seek outcomes whereby these matters have been properly taken into account. (In this PS, we say 'our rules requiring IGCs to consider and report on etc.' as shorthand for our rules requiring firms to include this in their minimum terms of reference for the IGC.) We also want outcomes that appropriately reflect consumer concerns, while not exposing them to significant financial risk. And we want these consumers to benefit from good stewardship of their investments, to create sustainable value as well as benefiting the economy and society.

1.11 We have already made rules (PS19/21) that will require firms, from 1 August 2020, to offer investment pathways to non-advised consumers entering drawdown. In this PS, our rules requiring IGC oversight of pathway solutions seek outcomes whereby pathway solutions offer value for money. That means costs and charges that are good value relative to the quality of the pathway solution and associated services, and a pathway solution that is appropriate for the pathway objective and the characteristics of the consumers likely to be using it.

Measuring success

1.12 IGCs to consider and report on ESG considerations, member concerns and stewardship: We will not know the impact of these rules on pension outcomes for many years. Even in the long term, it will be difficult to measure the impact precisely. But we will be able to see the extent to which providers and IGCs are engaging on these issues. The rules will require IGCs to include in their published annual reports their opinion on the adequacy and quality of the firm's policies on these issues for the products that IGCs oversee, any concerns that IGCs have raised, and how providers have responded.

1.13 IGC oversight of pathway solutions: We expect to see any concerns that IGCs have raised about value for money, and how providers have addressed those concerns, in their published annual reports. We will begin a review of the impact of the rules we have already made for investment pathways 1 year after their implementation. This review

will look at different aspects of the policy framework, including analysis of the charges providers are applying to pathway solutions. The review will help us evaluate the success of IGCs in helping to make sure that pathway solutions deliver value for money.

Summary of feedback and our response

- 1.14** We received 42 responses to the consultation, from firms operating in the pensions and retirement income industry, IGCs, trade bodies, non-governmental organisations (NGOs), individuals and consumer organisations. We thank all respondents for their feedback.

Feedback on consultation questions

- 1.15** In general, respondents supported our proposals to extend the remit of IGCs to ESG considerations, member concerns and stewardship. Some respondents were concerned that our proposed rules might require IGCs to report on their firm's policies on **all** financially material considerations, which may be very many. We have made amendments such that IGCs must always consider and report on the firm's policies on ESG considerations, member concerns and stewardship. For other financially material considerations, the IGC should raise concerns about the firm's policy, or lack of a policy, where (in the IGC's judgment) a consideration is particularly relevant to the firm's workplace personal pensions or pathway solutions and poses a significant risk of consumer harm.
- 1.16** Respondents were divided on our proposals to extend the remit of IGCs to oversee the value for money of pathway solutions. While most non-industry respondents were supportive, firms and industry bodies were generally against our proposals. Some respondents thought that this additional level of governance was not needed, or would dilute the responsibility of the firm's board, which they thought should already provide oversight of the value for money of the firm's products. Some respondents were concerned about the additional cost, with some smaller firms observing that this additional cost may deter them from offering pathway solutions.
- 1.17** We have considered the feedback carefully, but are proceeding largely on the basis on which we consulted in CP19/15. We do not agree that IGC oversight is not needed, or that it would dilute the responsibility of the firm's board. The firm's board is ultimately responsible for the products that the firm operates, while the IGC has an independent check and challenge role. We think that all consumers invested in pathway solutions should benefit from oversight by an IGC (or GAA where appropriate), even if this means that some smaller firms decide not to offer pathway solutions.
- 1.18** We have made some amendments to the detail of our proposed rules and guidance to take into account feedback from respondents. We explain these amendments in Chapters 2 and 3 of this PS.

Discussion questions

- 1.19** In CP19/15, we included a short chapter in which we discussed our observations on the practices and behaviour of IGCs. We invited views and set out next steps, and are grateful for the feedback we received. We will take this feedback into account in our further work on value for money in pensions and on IGC effectiveness (see paragraphs 1.27 and 1.28 below). We will summarise this feedback in our Discussion Paper on value for money, which we plan to publish in 2020.

The wider context of this Policy Statement

ESG and other issues: IGC consideration of firms' policies

- 1.20** Our new rules in this area address recommendations made by the Law Commission in its June 2017 report on Pension Funds and Social Investment. In some respects we go further.
- 1.21** The Law Commission recommended that we:
- make rules requiring IGCs to report on the firm's policies on how it takes account of ESG risks and member concerns in investment decision making
 - make a rule requiring IGCs to report on the firm's stewardship policy, if the firm has a policy
 - issue related guidance for firms to clarify how the firm should take account of ESG risks and member concerns in investment decision-making for pensions
- 1.22** The Law Commission recommended to the Department for Work and Pensions (DWP) that it make similar rules for trustees of occupational pension schemes. In September 2018, the DWP published amendments to the Occupational Pension Schemes (Investment) Regulations 2005 to address these recommendations. We worked closely with the DWP on this.

Investment pathways: IGC oversight of value for money

- 1.23** Our new rules to extend the remit of IGCs to investment pathways are the final part of our package of measures to improve outcomes for non-advised consumers accessing their pension savings through drawdown. This package of measures is to address failings identified in our [Retirement Outcomes Review](#), which we carried out to respond to the introduction of the pension freedoms in 2015.
- 1.24** In January 2019, following our Retirement Outcomes Review, we published our Consultation Paper ([CP19/5](#)) on proposed new rules and guidance for investment pathways. In CP19/5, we said that we intended to consult on extending the IGC regime to oversee the value for money of investment pathways.
- 1.25** In July 2019, we published our Policy Statement ([PS19/21](#)) on investment pathways, which set out our final rules and guidance. Firms will be required to offer investment pathways to consumers entering drawdown without advice. Our rules and guidance for investment pathways come into force on 1 August 2020.

Our wider work on pensions and retirement income

- 1.26** The extension of the remit of IGCs is part of our wider work on pensions and retirement income. This includes:
- 1.27** **Review of IGC effectiveness:** We have work underway to review the effectiveness of IGCs. We intend to conclude this work by April 2020 and aim to report on our findings in Q2 2020.
- 1.28** **Value for Money:** We have joint work underway with the Pensions Regulator (TPR) to develop common principles and standards for the assessment of value for money in pensions, as part of the [joint Pensions Strategy](#) that we published in October 2018.

This work may result in more prescriptive rules and guidance for firms and IGCs on how they should assess value for money.

- 1.29 Transaction cost disclosure:** In February 2019, we published a Consultation Paper (CP19/10) on new rules to require scheme governance bodies, like IGCs, to disclose transaction costs and administration charges onwards to members on an ongoing basis. We aim to publish our PS in early 2020.
- 1.30 Non-workplace pensions:** In July 2019, we published our Feedback Statement (FS19/5) following our Discussion Paper (DP18/1) 'Effective Competition in Non-Workplace Pensions.' In FS19/5, we outlined a package of potential measures to address a lack of competitive pressure in the non-workplace pensions market. We aim to publish a CP on our simplification and disclosure remedies in Q1 2020.
- 1.31 Stewardship:** In January 2019, we published our Policy Statement (PS19/13) 'Improving shareholder engagement and increasing transparency around stewardship' to implement the provisions of the amended EU Shareholder Rights Directive. In October 2019, we published our Feedback Statement (FS19/7) following our Discussion Paper (DP19/1) 'Building a Regulatory Framework for Effective Stewardship.' In FS19/7, we said that we would not impose further stewardship-related requirements on life insurers and asset managers at that time. We outlined several things we should do, working with industry, the Financial Reporting Council (FRC), Government and other regulators, to help address some remaining barriers to effective stewardship.
- 1.32 Climate change and green finance:** We have an important role in enabling firms to manage the risks from moving to a low carbon economy, supporting the development of the green finance market and ensuring consumers are appropriately protected. In October 2019, we published our Feedback Statement (FS19/6) following our Discussion Paper (DP18/8) 'Climate Change and Green Finance.' In FS19/6, we outlined our key actions and next steps, including consulting on new rules early in 2020 to improve climate-related disclosures by certain issuers and clarifying existing obligations.

How it links to our objectives

Consumer protection

We aim to protect less engaged consumers using these products

- 1.33** Consumers with workplace personal pensions or pathway solutions may be less engaged with their pension or drawdown savings than those managing their pension savings more directly. The complexity of pension products makes decision making difficult for many consumers. Consumers may leave investment decisions to their pension provider and not question the cost or quality of the product.
- 1.34** Our rules to extend the IGC regime are designed to address the risk that, against this backdrop, providers may not always deliver good value pension outcomes for consumers. IGCs act solely in the interests of consumers and provide expert and informed challenge to providers to improve their products.

Competition

We seek to encourage competition between providers when consumer pressure is lacking

- 1.35** IGCs promote greater transparency of costs and quality, thereby allowing employers, consumer representatives and interested members of pension schemes to engage better with providers. IGCs also put pressure on firms by reporting publicly on their concerns.
- 1.36** Our rules may increase competition between providers to incorporate ESG factors into their investment strategies and decision-making, and design and maintain value for money pathway solutions. Over time, increased competition between providers should drive further improvements to how ESG factors are incorporated and to the value for money of pathway solutions.

Equality and diversity considerations

- 1.37** We do not think that the new rules adversely impact any of the groups with protected characteristics under the Equality Act 2010 ie age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment. No respondents to CP19/15 raised any concerns about equality and diversity considerations. We expect our proposals to have a positive impact on older consumers using pathway solutions, both on a collective and individual basis.

Next steps

- 1.38** The final rules and guidance are set out in the Appendix. The final rules and guidance will come into force on 6 April 2020.
- 1.39** IGCs must report on their firm's relevant policies, and on the value for money of their firm's (proposed) pathway solutions, in the first IGC annual report that covers a period including or after 6 April 2020, and in subsequent annual reports. The next IGC annual report and subsequent annual reports must also include the IGC's report on their firm's implementation of its relevant policies.

What you need to do next

- 1.40** If your firm is subject to these new requirements, you will need to have an IGC or GAA in place by 6 April 2020. If your firm is considering use of a GAA rather than an IGC, your firm must decide whether this is appropriate. Our new rules include guidance to help with that decision.
- 1.41** If your firm has an existing GAA for workplace personal pensions and intends to offer pathway solutions, your firm will need to decide whether the use of a GAA rather than an IGC remains appropriate.

- 1.42** If your firm has an existing IGC for workplace personal pensions and intends to offer pathway solutions, your firm will need to consider whether the IGC needs additional resources and expertise to fulfil its duties in its extended remit.
- 1.43** If your firm intends to offer pathway solutions, our new rules require the IGC or GAA to assess the proposed design of pathway solutions before they are offered to consumers. We have already made rules that require, from 1 August 2020, investment pathways for non-advised consumers entering drawdown. So, IGCs and GAAs will need to assess the proposed design of pathway solutions, and firms will need to take into account their concerns, before 1 August 2020.

What we will do next

- 1.44** In Q2 2020, we aim to publish the findings of our review of the effectiveness of IGCs, which is currently underway.
- 1.45** We will begin a review of the impact of the rules we have already made for investment pathways 1 year after their implementation on 1 August 2020. Our review will also help us evaluate the success of IGCs in helping to make sure that pathway solutions offer value for money.

2 ESG issues: IGC oversight of firms' policies

- 2.1** In this chapter, we summarise the feedback we received to our proposals in CP19/15 to extend the remit of IGCs to consider and report on firms' policies on financially material considerations including ESG and climate change issues, member concerns and stewardship, for the products that IGCs oversee, and give our responses.

What we proposed

- 2.2** We want to encourage the providers of pension products to think about what more they can do to protect consumers from ESG risks, take advantage of ESG opportunities, and improve pension outcomes. IGC oversight of providers' policies on ESG considerations, member concerns and stewardship, and of what the provider does in practice, can provide a check and challenge where it is needed. This is particularly important when providers may not always have a strong commercial reason to act in the best interests of consumers.

Requiring IGCs to report on their firm's policies on ESG considerations, member concerns and stewardship

- 2.3** In CP19/15, we said that firms making long-term decisions on behalf of consumers should think about financially material ESG risks, including climate change. We proposed to require IGCs to report on the firm's policies on financially material considerations, including ESG and climate change issues. This includes opportunities as well as risks.
- 2.4** We also proposed to require IGCs to report on the firm's policy on how much (if at all) the ethical and other concerns of consumers are being considered in the firm's investment strategies and investment decision making.
- 2.5** We also proposed to require IGCs to report on their firm's stewardship policy. On 10 June 2019, our new rules implementing the provisions of the revised Shareholder Rights Directive came into effect. Under these rules, asset managers and life insurers need to disclose and make publicly available their policies on how they engage with each other and the companies they invest in, and on how their strategies create long-term value. In CP19/15, we said that requiring IGCs to report on the firm's approach to stewardship will encourage providers to be more proactive and innovative in how they engage with fund managers and underlying investee companies.

2.6 In CP19/15, we said that we wanted IGCs to do more than simply re-state the contents of their firm's policies on ESG considerations, member concerns and stewardship. So, we proposed that IGCs should report on what they think about the adequacy and quality of the firm's policies on these matters. We asked:

Q1: *Do you agree that IGCs should report on the adequacy and quality of their firm's policies on ESG issues, member concerns and stewardship?*

Feedback received

- 2.7** There were mixed views in response to this question. Many respondents agreed with the underlying principles on which the proposed rules were based. But some respondents disagreed and others raised practical concerns.
- 2.8** In general, respondents representing consumers or consumer bodies supported the proposed rules, arguing that without active encouragement to do so, pension providers are not in practice taking these matters into consideration in the interest of consumers. Other respondents, mainly from the financial services industry, argued that the proposed rules give IGCs responsibility for oversight of matters that are the responsibility of the board of a firm.
- 2.9** Some respondents were concerned that the proposals might require IGCs to consider and report on the firm's policies on all financially material considerations, which may be very many. They thought this would be a considerable burden on IGCs and might turn into a 'check list' exercise, whereas they thought the policy intent should be restricted to increasing the focus on ESG issues.
- 2.10** Some respondents argued that the definition of 'financial considerations' is too restrictive, arguing that the drafting of the proposed rules required IGCs to focus only on considerations that the firm identifies to be financially material. They were concerned that this would undermine an IGC's ability to scrutinise its firm's policies on ESG issues more widely. They suggested that an IGC should have the flexibility to consider and report on its firm's policies for any factor which the IGC considers is financially material, including those which the firm may not have considered.
- 2.11** A number of respondents questioned what we meant by the 'adequacy' and 'quality' of the firm's policies on these matters.
- 2.12** One respondent observed that many default arrangements make use of low cost passive index-tracking funds and that moving away from this model may result in additional investment costs. This respondent also observed that when the employer's workforce has a high turnover or low earnings, it may already be challenging to keep the overall cost of default arrangements, including administration costs, within the 75 basis point charge cap. They argued that additional investment costs may mean that providers cannot offer default arrangements to such employers.
- 2.13** Several respondents commented on the skills that IGCs would need to carry out this function effectively. They noted that IGCs would need to recruit different individual members, or educate existing members, and that this would take time and money to achieve. Other respondents felt that it was increasingly important for IGCs to have these skills.

- 2.14** One respondent argued that the proposed rules would create and impose new 'trustee-like' legal duties on IGCs. This respondent also asked us to clarify the scope of the reporting. In particular, whether IGCs would be expected to report on the adequacy and quality of the firm's policies as they apply: (a) to each and every investment fund provided by the firm within each relevant scheme; (b) in general terms by the firm in relation to its relevant schemes (considered in aggregate); or (c) only to default investment strategies within the firm's relevant scheme(s).
- 2.15** A number of respondents observed that there is no established body of definitions and benchmarks on ESG matters. They argued that IGCs will lack reference points to measure the adequacy and quality of firm's policies. Some respondents suggested that we provide further guidance on how to assess firms' policies, and on the level of detail that we would expect in IGC annual reports. A few respondents suggested that we create a standardised approach or template for assessing a firm's ESG policies, to support comparisons between providers. Other respondents felt that benchmarking of standards in this area would develop over time.
- 2.16** Some SIPP operator respondents questioned how the rules would apply to their business model. Some argued that their firms are not making investment decisions on behalf of any of their customers. They suggested that in these circumstances their firm should not be required to have an IGC or GAA reporting on the firm's policies on these matters. Some also asked for confirmation that, where a SIPP operator makes available a range of investments on its platform, including collective investments managed by third party investment managers, but does not make any decisions for its customers, the IGC or GAA would not be required to assess or report on the ESG or stewardship policies of each individual investment manager.

Our response

The rules and guidance in this area are broadly as we proposed in CP19/15. We agree that IGC focus on these matters will encourage firms to take them into consideration in the interests of consumers.

While the firm's board is responsible for the products the firm offers to consumers, IGCs will provide a valuable check and challenge that may otherwise be lacking.

We do not expect a 'check list' approach to the firm's policies, nor do we expect IGCs to consider and report on every one of the firm's policies on financially material considerations. At the same time, we do not want to restrict the scope of IGCs to considerations where the firm already has a policy. Our amended rules and guidance require IGCs always to consider and report on the firm's policies on ESG matters, member concerns and stewardship. For other financially material considerations we expect IGCs to exercise their judgment and prioritise issues depending on where they see particular risk of harms to the consumers concerned.

It is for the IGC to determine what it considers to be a financially material consideration. Our new rules give IGCs the flexibility to consider and report on the firm's policies and their implementation for any consideration which the IGC considers to be financially material. That

includes considerations that the firm may not have taken into account. Our amended rules and guidance make this clear.

We have included guidance to explain what we mean by considering and reporting on the 'adequacy' and 'quality' of the firm's policies. IGCs should consider whether the firm's policies do enough to address all relevant and significant risks and opportunities, and whether the firm's policies are sufficiently robust to achieve good consumer outcomes.

Our new rules do not preclude the use of index-tracking funds in default arrangements. Some index-tracking funds take explicit account of ESG factors, for example if the index is tilted towards ESG considerations. Where an index-tracking fund does not explicitly take account of such factors, the fund manager may still choose to engage in stewardship activities eg through exercise of voting rights or engaging directly with companies that make up the index. While taking account of ESG considerations may involve additional cost, the overall cost of most default arrangements is substantially below the 75 basis point charge cap. It is for the IGC to consider whether the firm's default arrangements represent value for money as well as how they take into account ESG considerations.

We agree that IGCs will need appropriate expertise to form judgments on the adequacy and quality of the firm's policies on these matters. This may mean upskilling existing IGC members on ESG issues, for example through training sessions, bringing in external expertise to IGC meetings discussing these issues, or recruiting new IGC members with the requisite expertise. While this may take time and money to achieve, we think the benefits are worth it. We expect the IGC to have sufficient collective expertise to be able to raise concerns where appropriate.

We do not agree that the rules impose 'trustee-like' legal duties on IGCs. While IGCs, like trustees, act solely in the interests of members, the role of an IGC is to raise concerns with its firm. IGCs do not decide on the firm's policies. It is for the firm to determine whether and how to change its policies in response to the IGC's concerns.

On the scope of the reporting, we assume that the respondent meant scope in relation to the adequacy and quality of the firm's policies (or lack of) on these matters. We expect the IGC to consider the firm's policies (which may apply to all the firm's products) specifically in relation to workplace personal pensions and pathway solutions. We do not expect the IGC to consider the adequacy and quality of firm's policies for each and every investment fund within relevant schemes, nor only in relation to default arrangements.

If the respondent meant scope in relation to how the firm has implemented its policies (see our response under paragraph 2.21), the IGC may want to question why a particular fund has been chosen, given the firm's policies. We expect IGCs to use their judgment as to where and at what level to focus their enquiries. We expect default arrangements to be a particular focus.

We do not intend to provide further detailed guidance on what we understand by ESG at this time. This is an area with a great deal of focus in the market. There are also standards being developed as part of the EU's Sustainable Finance Action Plan. In our Feedback Statement 'Climate Change and Green Finance' (FS19/6), published in October 2019, we acknowledged the importance of common standards and definitions, but noted that we need to allow ongoing EU and industry workstreams to run their course and build from these. In the meantime, IGCs may use their judgment.

We have considered the questions from some SIPP operators on how the proposed rules would apply to their business model. We think the proposals should be restricted to where the firm's investment strategy and decision making can have a direct impact on consumer outcomes. This includes where the firm selects the range of investments from which consumers may choose eg a range of self-select options selected by the firm. Where the SIPP operator does not select or otherwise limit the investments from which consumers may choose, we do not expect IGCs (or GAAs) to consider the firm's policies for those investments. Our amended rules and guidance make this clear. We continue to expect the SIPP operator to carry out appropriate due diligence on those investments before accepting them into a SIPP.

As set out in our Feedback Statement (FS19/7) 'Building a regulatory framework for effective stewardship,' we will consider further how we can extend the scope of our current rules on stewardship and shareholder engagement to SIPP operators in a way that meets our objectives while taking appropriate account of firms' different business models.

Requiring IGCs to report on the firm's implementation of its policies

2.17 In CP19/15 we said that having a policy in place does not guarantee that it is being followed and implemented effectively. So, in line with the DWP, we proposed to require IGCs to report on how the firm has implemented its policies on these matters, including the IGC's views on the adequacy and quality of implementation. We asked:

Q2: *Do you agree that IGCs should report on how the firm has implemented its policies on ESG issues, member concerns and stewardship?*

Feedback received

2.18 Most respondents agreed with these proposals. They argued that having IGCs report on how a firm is implementing its policies on these matters will help consumers understand how their provider is putting its policies into practice and that this will help improve standards in this area.

2.19 Respondents also welcomed how the proposals mirrored the approach taken by the DWP for occupational pension schemes, which are trust-based schemes. They felt that consumers in all types of schemes would benefit from equivalent levels of governance and protection. Some respondents asked whether the proposals would require firms to produce an implementation statement.

2.20 In relation to member concerns, respondents argued that members of a provider's workplace personal pension scheme used by multiple employers could be much more diverse than those of a single-employer occupational scheme. This might mean that members' concerns could vary significantly and be more difficult to establish. Additionally, the concerns raised by some members may not reflect the views of most members. So, the provider may have good reasons to take no action. But communicating these views might risk eroding the confidence of members more widely.

2.21 One respondent suggested that the FCA should consider introducing the notion of appropriate time horizons into the final rules. Different workplace personal pension schemes may have different time horizons, depending on the age profile of scheme members. This respondent also noted that different ESG risks might crystallise over different time horizons, and that risks judged unlikely to crystallise in the near future may still need firms to act now. They argued that there should be some signposting of the existing initiatives and resources in this area, and that firms should be encouraged towards impact investing over the medium-to-long term.

Our response

The rules and guidance in this area are substantially as proposed in CP19/15 with some clarifying amendments. We remain of the view that IGCs should report not only on the firm's policies but also on how the firm has implemented its policies.

The rules do not require firms to publish implementation statements. But the effect of the rules will be that IGCs ask firms what they have done and firms will have to respond. IGCs will report publicly on their consideration of the quality and adequacy of what the firm has done in practice, acting independently of the firm.

We agree that the concerns of members could vary significantly. The firm should not act on a member's non-financial concern if the concern is not shared (or is unlikely to be shared) generally by the members investing in (or likely to invest in) the product, or where acting on the concern risks significant financial detriment. We think this can be explained without undermining wider member confidence.

We agree that different workplace personal pension schemes may have different time horizons. We also agree that ESG risks may crystallise over different time horizons and that ESG risks crystallising over longer time horizons may still need action now. We have amended the guidance to include the notion of an appropriate time horizon.

An IGC must start reporting on their firm's implementation of its relevant policies in the year after the IGC starts reporting on the firm's relevant policies. But if a firm already has relevant policies, the IGC may consider it appropriate to start reporting on the firm's implementation of those policies at once. We provide guidance to that effect.

Application to pathway solutions

2.22 In CP19/15, we said that the newly introduced pathway solutions should benefit from the same level of oversight and governance as workplace personal pensions. So, we proposed to require IGCs to report on the firm's policies on ESG considerations, member concerns and stewardship, and their implementation, for pathway solutions as well as workplace personal pensions. We asked:

Q3: *Do you agree that IGCs should report on the firm's policies on these issues for both pathway solutions and workplace personal pensions?*

Feedback received

2.23 Most respondents broadly supported the proposal for IGCs to oversee firms' ESG-related policies for both pathways solutions and workplace personal pensions, noting the importance of all consumers benefiting from the same level of protection and governance. However, some industry respondents questioned the approach and again argued that their firm's existing governance arrangements should already provide sufficient protection. These respondents pointed to existing internal committees that consider consumer needs, or ESG issues, and that may report to the firm's board.

2.24 One respondent argued that the new rules would make IGC reports much longer, with the need to include information on pathway solutions which may not be relevant to workplace personal pension scheme members and vice versa.

2.25 Industry respondents noted that while ESG-related issues are associated with long-term risks, consumers in pathway solutions would be likely to have shorter investment time horizons. This would mean that appropriate ESG policies for pathway solutions could be different from those for pensions in accumulation. NGOs and consumer organisations argued that ESG issues can be material over a variety of time horizons, including in the short term, and that IGCs should report on the firm's ESG-related policies for pathway solutions.

2.26 One respondent noted that where firms offer consumers pathway solutions manufactured by another firm (see paragraph 3.6), it was not clear to them how the IGC could influence the ESG and stewardship policies of the manufacturer for its pathway solutions. They asked for additional guidance on this. This respondent also observed that currently there are no requirements for manufacturers of pathway solutions to incorporate ESG considerations into their products. They argued that it would be more appropriate to require manufacturers to incorporate ESG considerations into their pathway solutions, rather than placing the responsibility on IGCs to consider and report on this.

Our response

The rules and guidance in this area are as proposed in CP19/15. We agree with respondents that IGCs should report on the firm's policies on these matters for pathway solutions as well as workplace personal pensions. Both types of product are likely to be used by less engaged consumers who would benefit from IGC oversight.

A firm's existing governance arrangements may not always be sufficient to ensure value for money for consumers. In our view, IGCs provide a valuable check and challenge that may otherwise be lacking, and do not undermine the responsibilities of the firm's board.

We note the concern that the information on pathway solutions in IGC annual reports may not be relevant to workplace personal pension scheme members, and vice versa. IGC reports may have separate parts for workplace personal pensions and pathway solutions.

Pathway solutions may have shorter time horizons than pensions in accumulation. In addition, the time horizon of a pathway solution is likely to depend on the prescribed objective that the solution is designed to meet. We agree that an appropriate policy may need to reflect the time horizon of the product. As set out earlier in our response under paragraph 2.21, we have amended the guidance to include the notion of an appropriate time horizon.

Where firms offer pathway solutions manufactured by another firm, we expect the IGC to raise any concerns with its own firm and not with the manufacturer (see our response under paragraph 3.12). Its own firm may seek to influence the ESG and stewardship policies of the manufacturer, or may decide to use a different manufacturer.

We have not placed requirements directly on manufacturers to incorporate ESG considerations into their products. We think it would be premature to prescribe how firms must incorporate ESG considerations, given that this is an evolving area with other initiatives that may result in requirements on firms, including under the EU Sustainable Finance Action Plan.

Requirement to make IGC annual reports publicly available

2.27

Under our existing rules, firms must make the annual report of the IGC publicly available. But these reports are not always easy to find and firms may not publish prior reports for comparison. We proposed making rules to clarify how we expect firms to make IGC annual reports available. We asked:

Q4: *Do you agree that firms should make the IGC's annual report publicly and prominently available, with 2 prior reports for comparison?*

Feedback received

- 2.28** Most respondents agreed with our proposal. They felt that the reports should be presented in a consistent and comparable manner. They also observed that information needs to be clear and appropriate for the audience. Some respondents argued that we should provide more guidance on the format of the report, whereas others were in favour of a less prescriptive approach.
- 2.29** One respondent argued that, as consumer engagement with pensions is low, simply publishing the IGC reports on the provider's website may not be enough to make consumers aware of them. They thought we should encourage providers to actively distribute and create awareness of IGC reports. Several other respondents suggested that providers should be encouraged to use innovative and interactive technologies to engage and inform consumers.

Our response

The rules and guidance in this area are as proposed in the text of CP19/15. We have amended the proposed Handbook rules and guidance to require (as was our intent) firms to make publicly and prominently available the 3 most recent annual reports of the IGC ie the latest annual report with 2 prior reports for comparison.

We provide guidance that a firm may do this by publishing the reports on its website in an appropriately prominent position.

We have not provided further guidance on the format of the report. A number of IGCs publish 2 reports; a short report aimed at members and a longer report for other audiences and members who want more detail. We support this approach.

We think that IGCs and firms should consider how to increase consumer engagement with pensions, including through actively distributing and creating awareness of IGC reports. The use of innovative and interactive technologies may be an effective and potentially low cost way to do this.

Guidance for firms on long-term investment decision-making

2.30 To complement the requirements on IGCs, we proposed guidance to clarify how firms should think about ESG risks and consumer concerns when making investment decisions on behalf of consumers.

2.31 We followed the Law Commission's approach and proposed that firms should distinguish between financial and non-financial matters. We said that firms should always take into account financially material risks, such as financially material ESG (including climate change) risks. We said that firms may take into account the non-financial concerns of relevant consumers, provided that those consumers generally share the concern and where there is no significant risk to consumer outcomes.

2.32 The Law Commission's proposals were focused on workplace pensions. We proposed wider application of the guidance, to all pension products and all investment-based life insurance products. This includes products not overseen by IGCs, such as non-workplace pensions and non-pension long-term investment products like endowments, where the design of the product involves making investment decisions for a target market. We asked:

Q5: *Do you agree that the proposed guidance should apply more widely, to all firms that provide pension products and all life insurers that provide investment-based life insurance products?*

Feedback received

2.33 Most respondents were broadly supportive of the proposed guidance. Some observed that it would help ensure greater consistency in how firms approach ESG issues. Some industry respondents suggested that the guidance should apply even more widely to other long-term savings and investment products.

2.34 An industry body asked that we clarify our definition of investment-based life insurance products for the purposes of the guidance. This respondent argued that the guidance should not apply to products where the firm is bearing the investment risk, such as individual or bulk annuities. They also argued that the guidance should not apply to protection products that contain a small investment element, where investment is not the primary purpose of the product.

2.35 Some industry respondents were concerned that the guidance as proposed might deter them from offering products for consumers that want a clear focus on non-financial factors, even where there is significant risk of financial harm. Some SIPP operator respondents questioned how the guidance would apply where the firm does not provide the underlying investments.

2.36 A small number of respondents misunderstood the proposed application of the guidance and thought that it would extend the scope of IGCs beyond workplace personal pensions and pathway solutions.

Our response

We have made some amendments to the scope of the wider guidance as proposed in CP19/15.

We note that our proposed guidance could apply even more widely. But we think it has most relevance, and less potential difficulty in its application, to pension products and investment-based life insurance products. We may consider further widening of the guidance, and adding more detail to the guidance, in the future.

We have amended the proposed application of the guidance to make clear that it does not apply where the return earned by consumers cannot be directly affected by the investment decisions of the firm, for example annuity products. We have also clarified that the guidance applies where the primary purpose of the product is to deliver an investment return and does not apply to other products that contain a relatively small investment element. Unit-linked and with-profit products offered by life insurers are in scope of the guidance.

Firms should be able to manage products that are specifically designed to take account of non-financial matters. For workplace personal pensions and pathway solutions, firms should also not offer products (including self-select funds) that involve a risk of significant financial harm to consumers. For products outside of workplace personal pensions and pathway solutions that are specifically designed to take account of non-financial matters, firms may offer products that involve significant financial risk that is not necessarily compensated by the expected return, provided that consumers actively choose these products, and that firms comply with the relevant rules on distributing such products. We have amended the guidance to make this clear.

Where the firm does not provide the underlying investments, and does not select investments for consumers to choose from, and the consumer actively chooses their own investments, this guidance would not apply.

3 Investment pathways: IGC oversight of value for money

- 3.1** In this chapter, we summarise the feedback we received to the proposals in CP19/15 to extend the remit of IGCs to provide independent oversight of the value for money of firms' pathway solutions, and give our responses.

What we proposed

- 3.2** We introduced investment pathways for non-advised consumers entering drawdown to help them choose investment solutions that meet their needs and objectives in drawdown. From 1 August 2020, firms with non-advised consumers entering drawdown will be required to offer these consumers a choice between 4 clear and prescribed objectives for what they want to do with their drawdown savings. For each of these objectives, larger drawdown providers must offer a single pathway solution. As set out in paragraph 3.14 below, smaller drawdown providers entitled to rely on the easement in our rules will not be required to offer pathway solutions.
- 3.3** In CP19/15, we proposed rules to require that the terms of reference for an IGC include a new duty to assess the value for money of pathway solutions. Under the terms of reference, the IGC must weigh up the quality of the pathway solution and associated services against the costs and charges paid by the consumer. We aligned our proposed requirements with what IGCs must already do in assessing the value for money of workplace personal pensions. In our proposed rules, we used the defined term 'pathway investment' for pathway solution, to be consistent with the rules for investment pathways.
- 3.4** As part of an IGC's assessment of the value for money of pathway solutions, we proposed that IGCs must consider whether communications to members are fit for purpose and properly take into account their characteristics, needs and objectives. We proposed making this requirement explicit for workplace personal pensions as well. In practice, most IGCs already consider communications to members in assessing the value for money of workplace personal pensions.

Firms using the pathway solutions of other firms

- 3.5** In CP19/15, we said that all consumers invested in pathway solutions should benefit from the protection of an IGC. We proposed that all firms offering pathway solutions to consumers will be required to have an IGC.
- 3.6** Under the rules we have already made for investment pathways, it will be possible for a firm to manufacture pathway solutions for other firms but not itself offer them to consumers. In this scenario, the firm will not be required to have an IGC. The consumers using those pathway solutions will be protected by the IGCs of the firms offering them. We asked:

Q6: *Do you agree that we should focus our requirement for an IGC on firms offering pathway solutions to consumers?*

Feedback received

- 3.7** Most respondents agreed that the focus should be on the firm that offers pathway solutions to consumers, rather than on the manufacturer.
- 3.8** Some respondents were concerned that the IGC of a firm offering but not manufacturing pathway solutions would be unable to challenge the manufacturer directly. These respondents noted that an IGC in this situation might find it difficult to ensure that its concerns were addressed, including concerns about initial design.
- 3.9** A few industry respondents, including a trade body, asked us to clarify what we meant by the 'characteristics' of pathway solutions, when we proposed that IGCs must assess (among other things) whether the characteristics and net performance of pathway solutions are regularly reviewed by the firm to ensure alignment with the interests of pathway solution investors.
- 3.10** One industry respondent asked us to provide further guidance on the type of communications envisaged to be in scope of the new rules. Another asked us to clarify whether a single IGC could have remit across multiple firms within the same group. For example, when pathway solutions and workplace personal pensions are provided by different firms within the same group.
- 3.11** Some respondents focused on the broader question of whether IGCs should be required for pathway solutions. Many respondents agreed with the proposed requirement, noting that consumers invested in pathway solutions are likely to be less engaged and would benefit from independent expert oversight of value for money. Other respondents disagreed, because of the additional cost and because they considered that the firm's board would ensure the value for money of the firm's pathway solutions.
- 3.12** SIPP operator respondents in particular opposed the proposed rules. They argued that the costs associated with the establishment and ongoing operation of an IGC, or GAA, would be passed on to their customers using pathway solutions. Some observed that for firms with few customers invested in pathway solutions, the additional per customer cost would be very high. Some also observed that, while their firm may have a significant number of customers entering drawdown, most of these customers would choose their own investments. They argued that in these circumstances IGC oversight would have little benefit.

Our response

The rules and guidance in this area are as proposed in CP19/15. We agree with respondents that the focus of our requirement for an IGC should be on firms offering pathway solutions to consumers.

While the IGC of a firm offering but not manufacturing pathway solutions will be unable to challenge the manufacturer directly, it can raise concerns with its own firm. In response to this challenge, the IGC's firm may seek a bespoke design or lower costs from the manufacturer, or may choose a different manufacturer. Additionally, the IGC's firm may

set its own charges, which may be more than what the manufacturer charges. By focusing our requirement on the firm offering pathway solutions, the IGC can take into account all the costs and charges paid by consumers.

On the 'characteristics' of a pathway solution, we mean the investment design of the pathway solution, including the underlying investments and allocations to these. To align the characteristics of pathway solutions with the interests of pathway solution investors, the firm would need to take into account the prescribed objective of each pathway solution, as well as the characteristics of the consumers that the firm expects to be using its pathway solutions.

Any communications to relevant consumers are in scope of the new rules. These may range from annual benefit statements to bespoke communications aimed at particular customers. The rules give IGCs the power to assess communications generally, including where communications are lacking, for both pathway solutions and workplace personal pensions.

We confirm that a single IGC can have remit across multiple firms within the same group.

On the broader question of whether IGCs should be required for pathway solutions, we agree with the majority of respondents. We think that the benefits are worth the additional cost, and do not agree that oversight by existing internal governance arrangements and the firm's board will always ensure appropriate challenge on value for money.

We address the concerns of SIPP operators in our response to the feedback to Q7 below.

Firms with a smaller number of non-advised consumers

- 3.13** Where a firm requires that all consumers take advice before entering drawdown, the firm will not be required to offer investment pathways. Firms that do not offer investment pathways or workplace personal pensions will not be required to have an IGC.
- 3.14** The rules we have already made for investment pathways include an easement for smaller firms. Firms with fewer than 500 non-advised consumers entering drawdown per year will not be required to provide their own pathway solutions. These firms may refer non-advised consumers entering drawdown to another firm's pathway solutions (so the consumer becomes a customer of that other firm), or to the drawdown comparison tool that will be operated by the new Money and Pensions Service (MAPS). If the firm does not offer pathway solutions to consumers, and does not operate workplace personal pensions, the rules do not require an IGC (or GAA). Firms with 500 or more non-advised consumers entering drawdown per year, or firms with fewer customers than this but which choose to offer pathway solutions anyway, must have an IGC (or GAA).

- 3.15** In CP19/15, as a proportionate alternative to an IGC, we proposed to allow firms to use a GAA to provide oversight of investment pathways, as firms can for workplace personal pensions. We also proposed that firms considering the use of a GAA must decide whether it would be appropriate for the firm to use a GAA rather than establishing its own IGC, taking account of the expected number of consumers using its pathway solutions, the expected assets under management, and the complexity and nature of its pathway solutions. We proposed guidance to help firms with this decision.
- 3.16** A firm that already has a GAA for workplace personal pensions, and intends to offer pathway solutions for a significant number of consumers, may need to establish an IGC instead. We asked:

Q7: *Do you agree with our proposed approach for providers with smaller numbers of non-advised consumers entering drawdown?*

Feedback received

- 3.17** The majority of respondents agreed with our proposals, which they considered pragmatic. However, SIPP operators again raised concerns that the expected cost of an IGC or GAA would be disproportionate to the likely number of their customers that would use investment pathways. Some argued that their customers are more sophisticated than those of other pension providers and would choose their own drawdown investments rather than pathway solutions. They argued that this would mean a low take up of pathway solutions for their firms.
- 3.18** Several respondents, including the Association of British Insurers (ABI), observed that firms might decide against implementing pathway solutions because of the additional cost of operating an IGC or GAA. Some suggested that we monitor the impact on the market.
- 3.19** Some NGO respondents were concerned that a GAA might not provide as robust protection as an IGC. They thought that consumer outcomes might suffer as a result. One respondent suggested that we monitor whether those firms deciding to use a GAA rather than an IGC have good reason to do so.

Our response

The rules are as proposed in CP19/15.

We have considered carefully the concerns of SIPP operators. However, in light of the significance of pension investments to individual consumers, we remain of the view that all consumers in pathway solutions should have the benefit of an IGC or GAA challenging the firm on value for money issues, no matter the size of the provider. It is for the firm to decide whether it anticipates sufficient take up of pathway solutions for it to be economically viable for the firm to offer them.

We recognise that our requirement for an IGC or GAA for pathway solutions adds to the cost of providing these products, but we consider that this requirement will help ensure that firms develop pathway solutions that are designed in consumer interests and that offer value

for money. We think that firms that cannot afford an IGC or GAA for pathway solutions should not be offering these products, in light of their importance and the potential harms to the consumers concerned if they do not provide value for money.

We want GAAs to provide as robust protection as an IGC. A GAA is a proportionate solution, but is not intended to weaken the level of protection. We think that a GAA can provide equivalent protection, given the smaller take up and likely lower complexity of the pathway solutions that it oversees. Our ongoing review of IGC effectiveness will consider the effectiveness of GAAs as well as IGCs. We aim to publish our findings in Q2 2020.

Initial design of pathway solutions

3.20 In CP19/15, we said that the initial design of pathway solutions will be important, as it will be costly for firms and potentially disruptive for consumers to make changes afterwards. So, we proposed that IGCs must assess the value for money of pathway solutions before they are offered to consumers.

3.21 Our existing rules require investment pathways for non-advised consumers entering drawdown from 1 August 2020. In CP19/15, we said that we would confirm in our PS when a firm that has decided to offer pathway solutions must have an IGC in place. We asked:

Q8: *Do you agree that IGCs must be in place in time to assess the initial design of pathway solutions?*

Feedback received

3.22 Respondents generally agreed that IGCs should assess the proposed designs of pathway solutions before they are offered to consumers. However, some respondents had concerns as to whether this would be achievable, given the limited time for IGCs to assess product design and for firms to respond. A number of respondents observed that the timeline is particularly challenging for firms that do not already have an IGC in place.

3.23 Some respondents suggested that we clarify the expected level of an IGC's involvement in the design of pathway solutions. For example, one respondent asked whether the IGC would have the power to challenge the firm's investment decisions. This respondent considered that such a power would be disproportionate and may go beyond the IGC's remit.

Our response

It remains our view that IGCs should be in place in time to assess the proposed design of pathway solutions, raise any concerns with the firm, and for the firm to respond before pathway solutions are offered to consumers.

We have decided on an in-force date for our new rules of 6 April 2020. We think this strikes the right balance between allowing enough time for some firms to establish a GAA, or potentially an IGC, and allowing

enough time for IGCs and GAAs to be involved in the design of pathway solutions before they are offered to consumers.

We are not postponing our current in-force date for investment pathways of 1 August 2020, because that would mean more non-advised consumers not benefiting from investment pathways. We also consider that the requirement for IGC involvement in the design phase should remain as proposed, to mitigate the risk of consumer harm in the early days of investment pathways.

We anticipate that most firms that need to establish an IGC or GAA for pathway solutions will be smaller firms, and will decide that it is appropriate to establish a GAA rather than an IGC. This would involve setting up a contract with a third-party provider of GAAs. We think that this is achievable by 6 April 2020.

A small number of firms may need to newly establish an IGC. We note that, when we first required IGCs in 2015, the time between publication of our PS and our rules for IGCs coming into force was just 2 months, so that IGCs could be introduced alongside other pension reform measures on 6 April 2015.

In assessing the proposed designs of pathway solutions, IGCs may assess the same features as they would when assessing the value for money of pathway solutions on an ongoing basis, but features as proposed by the firm. For example, the firm's proposed processes and procedures for core financial transactions. We have provided guidance to this effect.

Questions in our chapter for discussion in CP19/15

- 3.24** CP19/15 included a chapter for discussion with 2 questions (Q9 and Q10). We thank respondents for their feedback. As noted in the Overview Chapter of this PS (paragraph 1.19), we will take this feedback into account in our further work on value for money in pensions and on IGC effectiveness. We will summarise the feedback in our Discussion Paper on value for money, which we plan to publish in 2020.

4 Cost benefit analysis

4.1 Our final question in CP19/15 asked for views on our cost benefit analysis (CBA).

Q9: *Do you agree with the conclusion and the analysis set out in our cost benefit analysis?*

Feedback received

4.2 We received a small number of substantive responses to this question, mostly from financial services firms or existing IGCs. Firms that currently have IGCs gave a mixed response. Some argued that we had underestimated costs, one that we had overestimated them and others that the costs appeared broadly reasonable. Some firms commented on the challenges of providing information from legacy systems, and the potential costs if legacy systems have not yet been updated. Some argued that we had overstated the benefits of IGC extension, while others argued that the benefits may be more significant.

4.3 Some SIPP operators again raised concerns that the expected costs would be disproportionate to the likely number of their customers that would use pathway solutions. One respondent noted that the cost per customer might be high at first (and lead to the need to cross-subsidise) but that over time this would come down, as the number of customers using pathway solutions increased.

Our response

We consider that, on balance, the points made in the responses do not change our CBA as proposed in CP19/15. As noted in our response to Q7 above, in light of the importance and significance of pension savings to consumers and the risks of harm, we consider that all consumers in pathway solutions should have the benefit of an IGC or GAA challenging the firm on value for money issues. In paragraph 3.14 above, we explain the easement which allows firms with fewer than 500 non-advised consumers entering drawdown per year not to provide their own pathway solutions. We consider that this will reduce the risk that firms will have to provide their own pathway solutions where the costs of doing so, including the costs of having an IGC or GAA, are disproportionate.

Annex 1

List of non-confidential respondents

Aegon

Age UK

AJ Bell

AON

Association of British Insurers

Association of Financial Mutuals

Association of Member-Directed Pension Schemes

Association of Pension Lawyers

Brian Shearing

B&CE

CFA Society of the UK

Client Earth

Financial Services Consumer Panel

Impact Investing Institute

Interactive Investor

Investment Association

Investment & Life Assurance Group

KEYTE Chartered Financial Planners

M&G Prudential

Mercer

Pensions and Lifetime Savings Association

Phoenix Group

Pinsent

Principles for Responsible Investment

Prudential

PTL

Royal Society for the Encouragement of Arts, Manufactures and Commerce

ShareAction

Society of Pension Professionals

Just

SRI Services

UK Sustainable Investment and Finance Association

Which?

Zurich

Annex 2

Abbreviations used in this paper

AMMS	Asset Management Market Study
CBA	Cost Benefit Analysis
CP	Consultation Paper
DC	Defined Contribution
DP	Discussion Paper
DWP	Department for Work and Pensions
ESG	Environmental Social Governance
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSMA	Financial Services and Markets Act 2000
GAA	Governance Advisory Arrangement
IGC	Independent Governance Committee
IPB	Independent Project Board
LC	Law Commission
LRRA	Legislative and Regulatory Reform Act 2006
NGO	Non-Governmental Organisation
OFT	Office of Fair Trading
PRA	Prudential Regulation Authority
PS	Policy Statement
ROR	Retirement Outcome Review
SM&CR	Senior Managers and Certification Regime

SIPP	Self-Invested Personal Pension
SRDII	The Amended Shareholder Rights Directive
TPR	The Pensions Regulator
UFPLS	Uncrystallised Fund Pension Lump Sum
VFM	Value for Money



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We have developed the policy in this Policy Statement in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

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Appendix 1

Made rules (legal instrument)

**CONDUCT OF BUSINESS SOURCEBOOK (INDEPENDENT GOVERNANCE
COMMITTEES) INSTRUMENT 2019**

Power exercised

- A. The Financial Conduct Authority (“the FCA”) 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 (The FCA’s general rules);
 - (2) section 137T (General supplementary powers); and
 - (3) section 139A (Power of the FCA to give 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 2020.

Amendments to the Handbook

- D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Conduct of Business sourcebook (COBS)	Annex C

Citation

- E. This instrument may be cited as the Conduct of Business Sourcebook (Independent Governance Committees) Instrument 2019.

By order of the Board
12 December 2019

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text.

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

ESG financial considerations environmental, social and governance factors (including climate change) that are material to the sustainability of an *investment*.

non-financial matters factors which may influence a *firm's investment* strategy or decision, and which are based on the views (including ethical concerns regarding environmental, social and governance issues) of the *firm's clients* or *relevant policyholders*.

other financial considerations factors (other than *ESG financial considerations*) that are material to the financial performance of an *investment* or *investment* strategy.

Amend the following definitions as shown.

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:

- (a) relevant policyholders in the *firm's relevant ~~schemes~~ scheme; or*
- (b) retail clients investing in a pathway investment offered by the *firm*.

IGC (in *COBS 19.5* and *COBS 19.8*) 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:

- (a) relevant policyholders in the *firm's relevant ~~schemes~~ scheme; or*
- (b) retail clients investing in a pathway investment offered by the *firm*.

relevant policyholder (in *SYSC 3.2*, *SYSC 4.1* and *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.

relevant scheme ...

- (3) (in *SYSC 3.2*, *SYSC 4.1* and *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 Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

Insert the following new subheading and provision after SYSC 3.2.22G. The text is not underlined.

Investment strategy and investment decision making

- 3.2.23 G (1) This *guidance* sets out the *FCA*'s expectation on how a *firm* may take into account *ESG financial considerations* and *other financial considerations* and *non-financial matters* as part of its *investment strategy* and *investment decision making*, to demonstrate compliance with *Principles 2, 3, 6 or 8*.
- (2) This *guidance* only applies where the *firm's investment strategy* or *investment decision* could have a material impact on a *policyholder's investment* returns and relates to a product where:
- (a) the primary purpose is to provide an *investment return*; and
- (b) any *investment risk* is borne by a *policyholder* who is a natural person or a *relevant policyholder*.
- (3) As part of its *investment strategy* or *investment decision making*, a *firm* should take into account *ESG financial considerations* and *other financial considerations* over the period of time that the *firm* reasonably considers is needed to achieve the *investment objective* or *investment strategy*.
- (4) References to *other financial considerations* in (3) may include (but are not limited to) interest rate, liquidity, concentration, exchange rate, political and counterparty risks.
- (5) As part of its *investment strategy* or *investment decision making* in relation to a product, a *firm* may take into account *non-financial matters* if:
- (a) the *firm* has good reason to consider that affected *policyholders* or *relevant policyholders* would generally share the views on which the *non-financial matters* are based; and
- (b) taking those matters into account would not involve a risk of a significant financial detriment to any affected *investment*.
- (6) (5) does not apply to a *firm's investment strategy* or *investment decision making* in relation to a product (other than in relation to a

relevant scheme or a pathway investment), that has been deliberately designed by the *firm* to take into account *non-financial matters*, and *policyholders* or *relevant policyholders* make an active decision to select that product.

Insert the following new subheading and provision after SYSC 4.1.14G. The text is not underlined.

Investment strategy and investment decision making of an operator of a personal pension scheme or stakeholder pension scheme

- 4.1.15 G (1) This *guidance* sets out the *FCA*'s expectation on how an operator of a *personal pension scheme* or a *stakeholder pension scheme* may take into account *ESG financial considerations* and *other financial considerations* and *non-financial matters* as part of its *investment strategy* or *investment decision making*, to demonstrate compliance with *Principles 2, 3, 6 or 8*.
- (2) This *guidance* only applies where the *personal pension scheme* or *stakeholder pension scheme* operator's *investment strategy* or *investment decision* could have a material impact on a *client* or a *relevant policyholder's investment* returns and relates to a product where:
- (a) the primary purpose of the product is to provide an *investment* return; and
- (b) the *investment* risk is borne by a *client* who is a natural person or a *relevant policyholder*.
- (3) As part of its *investment strategy* or *investment decision making*, an operator of a *personal pension scheme* or a *stakeholder pension scheme* should take into account *ESG financial considerations* and *other financial considerations*, over the period of time that the *firm* reasonably considers is needed to achieve the objective of the *investment* or the *investment strategy*.
- (4) References to *other financial considerations* in (3) may include (but are not limited to) interest rates, liquidity, concentration, exchange rate, political and counterparty risks.
- (5) As part of its *investment strategy* or *investment decision making* in relation to a product, an operator of a *personal pension scheme* or a *stakeholder pension scheme* may take into account *non-financial matters* if:
- (a) the *firm* has good reason to consider that affected *clients* or *relevant policyholders* would generally share the views on

which the *non-financial matters* are based; and

- (b) taking those matters into account would not involve a risk of a significant financial detriment to an affected *investment*.
- (6) (5) does not apply to a *firm's investment* strategy or *investment* decision making in relation to a product (other than in relation to a *relevant scheme* or a *pathway investment*) that has been deliberately designed by the *firm* to take into account *non-financial matters*, and *clients* or *relevant policyholders* make an active decision to select that product.

Annex C

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

19 Pensions supplementary provisions

...

19.5 Independent governance committees (IGCs)

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:

- (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);
- (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*;
- (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).

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 R ~~(4)~~ Subject to COBS 19.5.3R, 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) This rule does not apply to a firm if another firm in Firm A's group has made arrangements already established an IGC under this section, for an IGC and Firm A has made arrangements with that IGC to cover a relevant schemes scheme operated by Firm A or a pathway investment offered 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*, 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*.
- ...
- 19.5.4 G ...
- (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 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:
 - (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 ~~schemes~~ scheme particularly, though not exclusively, through assessing:

...

 - (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; and
 - (f) whether the communications to *relevant policyholders* are fit for purpose and properly take into account the *relevant policyholders*' characteristics, needs and objectives;
 - (2A) the *IGC* will assess the ongoing value for money for pathway investors delivered by a *pathway investment* particularly, though not exclusively, through assessing:
 - (a) 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;
 - (b) 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;
 - (c) whether core financial transactions are processed promptly and accurately;
 - (d) the levels of charges borne by pathway investors;
 - (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 drawdown fund of pathway investors, including

transaction costs; and

- (f) whether the communications to pathway investors are fit for purpose and properly take into account the pathway investors' characteristics, needs and objectives;
- (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 the value for money for *relevant policyholders* delivered by a *relevant scheme* 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;
- ...
- (6) the Chair of the *IGC* will be responsible for the production of an annual report setting out:
- (a) the *IGC's* opinion on:
 - (i) the value for money delivered by a *relevant schemes scheme* or a *pathway investment*, particularly against the matters listed under (2) or (2A); 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);
 - (b) how the *IGC* has considered *relevant policyholders' or pathway investors'* interests;
- ...
- (d) how the *IGC* has sufficient expertise, experience and independence to act in *relevant policyholders' or pathway investors'* interests;
- ...
- (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*.

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

- 19.5.6 G (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). ~~Should~~ 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 ~~COBS 19.5.5R(2)~~ 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.
- (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 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.

- (8) 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*.
- (9) The *IGC* should only consider and report on *other financial considerations* as set out in *COBS 19.5.5R(2D)* where it considers that:
- (a) they are likely to pose a particular and significant risk of financial harm to the *relevant policyholders* or pathway investors; and
 - (b) 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:

...

- (2) take reasonable steps to provide the *IGC* with all the information reasonably requested by the *IGC* in good time for the purposes of carrying out its role;

...

- (4) have arrangements to ensure that the views of *relevant policyholders* or pathway investors can be directly represented to the *IGC*;

...

- (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.

...

- (8) ~~make the terms of reference and the annual report of the *IGC* publicly 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.

19.5.8 G ...

- (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~~ 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.

...

- (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 schemes 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 schemes scheme* or a *pathway investment* and the funds held within these.

...

- (8) *A firm can make the IGC's terms of reference for the and the IGC IGC's three most recent and the annual report reports of the IGC publicly 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 G (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 matters in the IGC's remit of review.*

...

- 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 his their employment contract.*

...

IGC members who are independent

...

- 19.5.12 G ...
- (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.*

...

TP 2 Other Transitional Provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...					
<u>2.30</u>	<u>COBS TP 2.31</u>	<u>G</u>	<u>The purpose of the transitional provision in COBS TP 2.31 is to treat the specified Glossary definitions (and the relevant provisions referred to within these definitions) of the Conduct of Business Sourcebook (Investment Pathways) Instrument 2019 coming into force on 1 August 2020 as in force to enable a firm and its IGCs to comply with the requirements of COBS 19.5 and the guidance in SYSC 3.2 and SYSC 4.1.</u>	<u>From 6 April 2020 to 31 July 2020</u>	<u>6 April 2020</u>
<u>2.31</u>	<u>COBS 19.5</u>	<u>R</u>	<u>The following Glossary definitions (and the relevant provisions referred to within these definitions) have the same meaning as in Annex A of the Conduct of Business Sourcebook</u>	<u>From 6 April 2020 to 31 July 2020</u>	<u>6 April 2020</u>

			<p>(Investment Pathways) Instrument 2019 coming into force on 1 August 2020:</p> <p>(1) <i>capped drawdown pension fund;</i></p> <p>(2) <i>flexi-access drawdown pension fund;</i></p> <p>(3) <i>manufacture; and</i></p> <p>(4) <i>pathway investment.</i></p>		
<u>2.32</u>	<u>COBS 19.5.5R(2A)(c)</u>	<u>R</u>	The <i>rule</i> in column (2) does not apply until 1 August 2020 and is replaced by the <i>guidance</i> in COBS TP 2.33.	From 6 April 2020 to 31 July 2020	<u>6 April 2020</u>
<u>2.33</u>	<u>COBS 19.5.5R(2A)(c)</u>	<u>G</u>	From 6 April 2020 to 31 July 2020, an IGC may consider it appropriate to consider the <i>firm's</i> processes and procedures, and any related service legal agreements, regarding the processing of core financial transactions, as part of its assessment of value for money.	From 6 April 2020 to 31 July 2020	<u>6 April 2020</u>
<u>2.34</u>	<u>COBS 19.5.5R(6)</u>	<u>R</u>	In relation to the matters in COBS 19.5.5R(2A) to (2D), where the first annual report produced by the Chair of an IGC from 6 April 2020	From 6 April 2020 to 31 December 2020	<u>6 April 2020</u>

			<p><u>relates to a year:</u></p> <p>(1) <u>that ends before 6 April 2020, the rule in column (2) does not apply; or</u></p> <p>(2) <u>that starts before (but ends after) 6 April 2020, the IGC is not required to comply with the rule in column (2) to the extent the IGC does not have sufficient information to produce a substantive report. In such cases where there is insufficient information to produce a substantive report, the Chair of the IGC must include a statement in the annual report to that effect.</u></p>		
<u>2.35</u>	<u>COBS 19.5.5R(6)(aa)</u>	<u>R</u>	<u>The rule in column (2) does not apply until 6 April 2021 and is replaced by the guidance in COBS TP 2.36 below.</u>	<u>From 6 April 2020 to 5 April 2021</u>	<u>6 April 2020</u>

<u>2.36</u>	<u>COBS</u> <u>19.5.5R(6)(aa)</u>	<u>G</u>	<u>Where an annual report produced by the Chair of an IGC after 6 April 2020 relates to a year that ends before 6 April 2021, an IGC may consider it appropriate to report on the extent to which the <i>firm</i> has implemented its stated policies in relation to the matters in <u>COBS 19.5.5R(2B) to (2D)</u>.</u>	<u>From 6 April 2020 to 5 April 2021</u>	<u>6 April 2020</u>
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