

REGULATORY REPORT

Committee	Pensions Committee
Contact Officers	Sian Kunert, Finance
Papers with this report	None

HEADLINES

This report is for information and provides a number of regulatory and industry updates to support Pension Committee member knowledge of the changing regulatory environment.

RECOMMENDATIONS

It is recommended that Pensions Committee note this report.

SUPPORTING INFORMATION

Pooling Guidance

In January 2019 MHCLG issued draft statutory guidance on LGPS asset pooling. The Ministry welcomed responses but it was an informal process with only interested parties sent the draft document. In May 2019, Rishi Sunak the Minister for Local Government Pensions announced at the PLSA Local Authority Conference, that a formal consultation on pooling guidance would be published in the forthcoming months.

Consultation on Local Valuation Cycle

On 8 May 2019 MHCLG issued a 12 week policy consultation called 'LGPS: Changes to the local valuation cycle and the management of employer risk'. The consultation closes on 31 July 2019 and covers the following areas:

- amendments to the local fund valuations from the current 3 year (triennial) to a 4-year (quadrennial) cycle
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- proposals for flexibility on exit payments
- proposals for further policy changes to exit credits
- proposals for changes to the employers required to offer local government pension scheme membership

Details of the consultation have been sent to scheme employers to ensure that they have an opportunity to respond.

Disclosure Regulations

In June 2019 The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 were laid before Parliament to adopt into UK law the EU Shareholder Rights Directive II (SRD II) which was designed to encourage investors to adopt

a longer-term focus in how they consider ESG issues and to be more transparent in how they invest. The new regulations require the Hillingdon Pension fund to

- Set details about their arrangements with asset managers in the Investment Strategy Statement by 1 October 2020. These arrangements will include how the fund “incentivises” asset managers to align investment strategy and decisions with those set out in the ISS and the monitoring of portfolio turnover costs.
- From 1 October 2020, explain the fund has complied with its stewardship policies and describe voting behaviour. This must be set out in an ‘implementation statement’, contained within the annual report.

Competition and Market Authority (CMA)

The Competition and Market Authority (CMA) published on 10 June its final order in relation to the investigation into the investment consultancy and fiduciary management industry. As an unexpected move the CMA have included LGPS funds in the new requirements from the order which means LGPS funds will need to publish objectives for consultants with a clear definition of the outcome and timescales expected for them to achieve this. The new requirements are in place to ensure trustees (including LGPS committees) can monitor the performance of their advisers, to ensure they are receiving the best value for money and increase competition to make the markets work better for beneficiaries.

The Hillingdon fund must as a result have objectives in place for the Investment Advisers KMPG by 10 December 2019, otherwise the fund could be taken to court by the CMA. The objectives for Investment advisers must be closely linked to the fund investment objectives and be reviewed at least every three years and after significant changes to strategy or objectives.

It is unclear at the current time if there would be any implications on LGPS pooling as the CMA also creates a number of duties for pension schemes relationships with fiduciary managers.

Objectives for the investment advisers will be drafted and brought to Pensions Committee for discussion and approval in October.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None.