

Polly Fortune  
Department for Work and Pensions  
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London  
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5 September 2013

Dear Polly,

**The Department for Work and Pensions' Consultation Document 'Quality standards in workplace defined contribution pension schemes'**

I am pleased to respond to the above consultation on behalf of the Financial Reporting Council (FRC). The FRC notes this call for evidence seeks to take forward the important debate around the regulation of defined contribution (DC) pension schemes and is timely as the DC market is in a period of significant change with the recent introduction of automatic enrolment.

The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. Our remit includes corporate governance, notably the UK Stewardship Code and setting technical actuarial standards including AS TM1, which details the methods and assumptions to be used when producing SMPs for members of DC schemes.

We would like to comment on questions one and two in the call for evidence.

Question 1 asks what the essential features of good governance are. The UK Corporate Governance Code, which the FRC also administers, identifies the underlying principles of all good governance as being "accountability, transparency, probity and focus on the sustainable success of an entity over the longer term." We would argue these are as appropriate for a DC Pension Scheme as other types of organisations.

Question 2 asks how the presence of these features affects the decisions taken about running a pension scheme. While there are mixed views in the market as to whether all workplace defined contribution pension schemes are subject to fiduciary duties, it is hoped that the current project by the Law Commission on the "Fiduciary Duties of Investment Intermediaries" will provide clarity on who in the investment chain is bound by fiduciary duties when it reports in 2014. Whatever the outcome of this work, good governance plays a key role in allowing every pension scheme to discharge its obligations in an effective and efficient manner.

Pension scheme governance has many aspects, but one which we would particularly like to highlight is the asset owners' role in overseeing the actions of their managers, as described in the UK Stewardship Code. The Code is designed to improve investment decision-making and assist pension schemes and other owners in protecting the interests of their beneficiaries. The Code is intended "to protect and enhance the value that accrues to the ultimate beneficiary" and part of good pension scheme governance is ensuring that assets are managed in the interests of the end beneficiary, in a way which minimises rent-seeking behaviour by intermediaries.

The Code is directed in the first instance to institutional investors, namely asset owners and asset managers with equity holdings in UK listed companies. Given the demographics of the individuals participating in automatic enrolment, it is expected that these investors will choose to have a significant exposure to UK equities. Signatories to the Code include trustees and investment managers of both DB and DC Pension Schemes, including NEST Corporation.

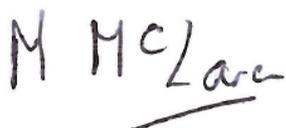
The National Association of Pension Funds (NAPF) has recently produced a Stewardship policy<sup>1</sup> which states that: "There are three simple actions which can be expected of pension funds as the owners and providers of capital:

- 1) Include a section on 'stewardship' within the fund's Statement of Investment Principles;
- 2) Include stewardship criteria in manager searches; and
- 3) Incorporate monitoring of stewardship activities into manager reviews."

We feel this is a helpful suggestion from the market which is worth further consideration.

Should you wish us to expand on any aspect of this response, please do not hesitate to contact me.

Yours sincerely



**Melanie McLaren**

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<sup>1</sup>[http://www.napf.co.uk/PolicyandResearch/Policy\\_topics/~/\\_media/Policy/Documents/0272\\_Stewardship\\_policy\\_NAPF\\_2012.ashx](http://www.napf.co.uk/PolicyandResearch/Policy_topics/~/_media/Policy/Documents/0272_Stewardship_policy_NAPF_2012.ashx)