

Code of practice

Authorisation and supervision of collective defined contribution schemes

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Introduction

This code of practice is issued by The Pensions Regulator (TPR), the body that regulates occupational pension schemes in the UK. It relates to the authorisation and supervision of collective money purchase schemes (known as collective defined contribution or CDC schemes), which were introduced by the Pension Schemes Act 2021 (the Act) and the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 (the Regulations).

The publication of this code of practice is a statutory requirement^{IT1}. This code's purpose is to set out clearly how an application for authorisation must be made and how we will assess the matters that the regulations require us to take into account in deciding whether we are satisfied that a scheme meets the criteria for authorisation. The code will help those involved in CDC schemes to understand how to satisfy us that the authorisation criteria are met at application and continue to be met throughout supervision.

It sets out the information we expect to use for our assessment, and the standards we expect to see. If we are not satisfied that a CDC scheme meets all the criteria, we must refuse to authorise it. Our decision on this will be informed by the expectations in this code.

This code is primarily aimed at those involved in the operation of a CDC scheme, for example trustees and their advisers.

This code assumes that trustees have a good knowledge of all relevant legal requirements and of our expectations in other codes of practice, which may apply in addition to this code and the CDC legislation. Codes of practice that apply to pension schemes generally or to DC schemes will also apply to CDC schemes unless there is a specific exemption.

Our statutory objectives are:

- to protect the benefits of pension scheme members
- to reduce the risk of calls on the Pension Protection Fund (PPF)
- in relation to the exercise of functions under Part 3 of the Pensions Act 2004 only, to minimise any adverse impact on the sustainable growth of an employer
- to promote, and improve understanding of, the good administration of work-based pension schemes
- to maximise compliance with the duties and safeguards in the Pensions Act 2008

IT1 Sections 90(2)(jc) and (jd) of the Pensions Act 2004

We have several regulatory tools, including issuing codes of practice, to enable us to meet our statutory objectives. Codes of practice give practical guidelines about the requirements of pension legislation and set out standards of conduct and practice expected of those who must meet these requirements.

This code is supported by a number of products, including guidance, which assist trustees in applying for authorisation and throughout supervision to understand the evidence that must be provided.

Status of this code of practice

Codes of practice are not statements of the law and there is no direct penalty for failing to comply with them, although the legislation requires some parts of this code to be complied with and may provide for penalties if they are not. This is known as a legislative underpin, and the code indicates which parts this applies to. In addition, when determining whether the legal requirements have been met, a court or tribunal must take account of any provisions of a code that it considers relevant.

The code distinguishes between legal duties and our expectations by using the word 'must' when referencing legal duties, and 'should' for our expectations. We use 'need' if the process is necessary to allow a scheme to operate but there is no expectation or legal requirement.

The code highlights key aspects of the Regulations and sets out how we will assess the matters that the Regulations require us to take into account in deciding whether we are satisfied that a CDC scheme meets the authorisation criteria. This includes the information we expect to take into account in our assessment and the standards we expect to see. If we are not satisfied that a CDC scheme meets all the criteria then we must not authorise it (or may de-authorise it), and our decision on this will be informed by the expectations we have set out in this code.

We are required to consider the matters set out in the Regulations. The code sets out some factors as 'more likely to satisfy'. These factors are not specifically required by the legislation but if one or more are present, we are more likely to be satisfied that the underlying legal requirements are met. Trustees may choose a different approach to satisfy us that all of the authorisation criteria have been met.

If there are grounds to issue a risk notice, improvement notice or compliance notice, we may direct a person to take, or not to take, steps specified in the notice. These directions may be worded by reference to a code of practice issued by us, and failing to comply with an improvement notice or compliance notice carries a penalty.

If we decide not to authorise a CDC scheme, or to de-authorise a CDC scheme after it has been authorised, the reasons for our decision may refer to this, or any other, code of practice.

Authorisation

The Act sets out the framework for authorisation and places a duty on us to assess an application for authorisation against the criteria. It also prohibits a person from operating a scheme that falls within the definition of a CDC scheme unless it has been authorised. The legislation sets out the matters that we must take into account in respect of each of the authorisation criteria. For a CDC scheme to be authorised, we must be satisfied that it meets all the authorisation criteria^{IT2}.

This code sets out how we will assess the matters set out in the legislation in deciding whether we are satisfied that a CDC scheme has met the criteria. The code should be read in conjunction with the relevant legislation and accompanying guidance that gives more practical information about how trustees can show that the scheme meets the authorisation criteria.

The application for authorisation must be submitted by the trustees and must be in our required format^{IT3}. The application form will guide trustees through the information and evidence that must be submitted.

If a CDC scheme that has not been granted authorisation starts to operate, it must cease operating and wind up. A CDC scheme that has been authorised must also wind up if it is subsequently de-authorised.

We expect trustees to be open and honest in the information they provide and in their dealings with us. Providing false or misleading information could lead to a CDC scheme not being authorised or being de-authorised.

Supervision

Once a CDC scheme is authorised, those running it must continue to satisfy us that it meets the authorisation criteria. Our continuing assessment of this is called supervision.

Supervision is a risk-based, proactive process that allows us to understand how a CDC scheme continues to meet the authorisation criteria. As part of this process, we will require trustees to submit a supervisory return containing updates against the criteria. We can ask for this no more than once a year. Significant events must also be reported to us as they may have an immediate impact on a scheme's continuing ability to meet one or more authorisation criteria.

If we are no longer satisfied that a CDC scheme meets the authorisation criteria, we may take regulatory action, including de-authorising it^{IT4}.

IT2 Sections 9(4) and (5) of the Act
IT3 Sections 8(1) and (2) of the Act
IT4 Section 30(1) of the Act

What is a CDC scheme?

This section of the code covers the characteristics that a scheme must have to be eligible to apply for authorisation. If a scheme does not meet the legislative requirements to be a CDC scheme, we cannot assess an application to authorise it and it cannot operate as a CDC scheme. This section summarises the position using definitions taken from the Act and Regulations, and should be read in conjunction with them.

Trustee boards should consider taking professional advice to establish that their scheme has the characteristics required by legislation.

A CDC scheme^{WA1}:

- is a qualifying scheme or a section of a qualifying scheme
- can provide only qualifying benefits

A qualifying scheme^{WA2}:

- is an occupational scheme established under an irrevocable trust by an employer
- is not a relevant public service scheme
- is only used, or is only intended to be used, by a single employer or two or more connected employers
- must provide qualifying benefits which consist of or include the payment of a pension
- must, if the scheme provides qualifying and other benefits or types of qualifying benefits with different characteristics, have appropriate separation of those benefits

Employers are connected^{WA3} if they:

- are group undertakings in relation to each other as defined in section 1161(5) of the Companies Act 2006, or
- are structured so that the economic position of the shareholders of each company is, as far as practicable, the same as if they held shares in a single company that makes up the combined business

WA1 Section 1 of the Act

WA2 Section 3 of the Act

WA3 Section 49(2) of the Act and Regulation 3 of the Regulations

A qualifying benefit^{WA4}:

- is provided from the available assets of the scheme (ie assets that come from member and employer contributions and are available to provide benefits collectively)
- is subject to periodic adjustment, in accordance with the scheme rules, to achieve a balance between the value of the available assets and the required amount (ie the amount expected to be required to provide benefits collectively)
- if a scheme has qualifying benefits and other benefits, for example a defined benefit lump sum (for the avoidance of doubt a lump sum can be provided from a CDC section where it is a qualifying benefit) or a DC benefit at an individual level, these must be separated into different sections^{WA5} and only the sections providing qualifying benefits will be subject to authorisation

To be separated correctly:

- a section providing a qualifying benefit cannot provide any other type of benefit
- contributions made in respect of qualifying benefits must only be made into the section providing those qualifying benefits
- assets are apportioned to each section and cannot be used to provide the benefits of a different section

All qualifying benefits in a section must:

- be provided by reference to the same rate or amount for all members
- have the same rate or amount of contributions paid by all members
- have the same rate or amount of contributions paid by the employers
- have the same normal pension age for all members

Where an employer wishes to change any of these characteristics, or where there are different characteristics at first application, the benefits must be provided under a different section and each section must be authorised, either at initial application or as different qualifying benefits are created.

WA4 Section 2 of the Act

WA5 Section 3(6) of the Act

Applying for authorisation

CDC schemes must be authorised in order to operate^{AP1}, and this code describes the process for trustees to apply for authorisation.

The application for authorisation must be submitted by the trustees in our required format^{AP2}. Trustees must satisfy us that the scheme meets the authorisation criteria, and the application forms will guide them through the evidence that must be submitted.

If we are satisfied that the authorisation criteria are met, we must authorise the scheme^{AP3}.

If we are not satisfied that a scheme meets all the criteria, we must refuse to authorise it^{AP4}.

If we decide not to authorise a scheme, we will give reasons and you may refer the decision to the Tribunal^{AP5}.

Once operating, a scheme must continue to meet all authorisation criteria for it to remain authorised.

This section of the code covers:

- the initial application process, including:
 - a summary of the evidence to be submitted
 - the process and timeline for an application
- how to apply for authorisation for more than one section
- how to apply for authorisation of an additional section of an authorised scheme
- application fees

AP1 Section 7(1) of the Act
AP2 Sections 8(1) and (2) of the Act
AP3 Section 9(4) of the Act
AP4 Section 9(5) of the Act
AP5 Section 10 of the Act

What to include in the initial application for authorisation

Authorisation criteria

Trustees must include the following in their application^{AP6}:

- **viability report**
- **viability certificate**
- **continuity strategy**

In addition, for us to authorise an application we must be satisfied that^{AP7}:

- those involved in the scheme are **fit and proper persons**
- the **design of the scheme is sound**
- the scheme is **financially sustainable**
- the scheme has adequate systems and processes to **communicate with members** and others
- the **systems and processes** used in running the scheme are sufficient to ensure that it is run effectively
- the scheme has an adequate continuity strategy

AP6 Section 8(3) of the Act

AP7 Section 9(3) of the Act

Application timeline

Trustees can apply for authorisation at any time. However, we strongly encourage trustees to engage with us before submitting a formal application. We will consider that an application has been made once we have received a completed application form and supporting evidence for each of the authorisation criteria, and the authorisation fee has been paid. We will check that the application is complete and tell you within seven days if anything is missing.

Once we are satisfied that we have received a complete application, we will inform you that the assessment period has begun from the date the application was submitted. We must tell you within six months of this date whether the scheme has been authorised^{AP8}.

During the assessment period we may ask for information or clarification. We acknowledge that circumstances (such as corporate activity in the employer, or a change of trustee) may require you to update your application during the assessment period. Any changes should be sent to us, with reasons, as soon as possible. Because we have a statutory deadline of six months to make a decision, we are more likely to be able to take account of changes or new information if we are notified earlier in the assessment process.

Application fee

A standard fee of £77,000 must be paid by BACS transfer for us to accept receipt of a completed application^{AP9}. If an application is withdrawn during assessment and then resubmitted, the resubmission will be treated as a new application and the full standard fee must be paid for it.

Applying for more than one section at initial authorisation

In applying to be authorised as a CDC scheme, trustees may seek authorisation for a scheme with one section (an undivided scheme) or authorisation for a section or multiple sections of a scheme (a divided scheme). The reasons for separating a scheme into different sections are set out in [What is a CDC scheme?](#)

For completeness, authorisation applies separately for each separate section providing qualifying benefits, and trustees must submit evidence about the authorisation criteria for each section they are seeking authorisation for, regardless of whether there is any duplication between sections.

AP8 Section 9(2) of the Act

AP9 Regulation 7(1) of the Regulations

Explain how the sections differ

When applying for a divided scheme, trustees should explain in a separate mapping document how the sections differ from one another, referencing sections where this is the case. This document will need to describe the following:

- The reasons for having multiple sections.
- The level of shared management dependency across multiple sections, including:
 - whether there are the same or separate **systems and process** in place across all sections, and
 - whether the same persons subject to **fit and proper person requirements** are common across all sections.
- Any differences in **scheme design** between sections as each will be assessed on its own merits for soundness and **financial sustainability**.
- The strategy for **communicating with members** across multiple sections, highlighting the subject areas that will be common to all sections or specific to one or more sections. Special care will be expected over messaging to members of more than one section.

Application fee

When submitting multiple sections, trustees must designate the “primary section” that the standard fee of £77,000 will apply to^{AP10}.

The fee for authorising each other section is calculated on a cost-recovery basis and will not exceed the standard fee^{AP11}.

We will check that the application is complete for each section and tell you within seven days if anything is missing. As part of this check, we will assess the additional work and complexity involved in evaluating a multiple-section scheme, after which we will specify a non-negotiable fee for each section submitted that is not the primary section.

It is in trustees’ interests to clearly state the commonality and differences between sections so we can accurately assess how much resource is required to authorise each section. Trustees should provide a detailed table showing where commonality and management interdependency sit across all sections of the scheme. For example:

- if only the people already assessed as fit and proper in the scheme are to operate in another section, we will consider no further checks on their fitness and propriety necessary, but
- if a section introduces new systems and processes that are not used for another section of the scheme, we will assess those new elements in full

AP10 Regulation 7(3) of the Regulations

AP11 Regulation 7(4) of the Regulations

Applying for a new section to be added to an authorised scheme

When assessing a new section to be added to an already authorised scheme, we will apply the principles described above for authorising a divided scheme, namely that trustees should explain how the new section differs from those already authorised.

When applying for a new section, trustees should inform us which section the existing authorisation will apply to^{AP12}. For completeness, trustees must submit evidence for all the authorisation criteria for the new section even if there is duplication with a previously authorised section^{AP13}.

Application fee

The fee will be based on the approach outlined above for the non-primary sections of a divided scheme and will:

- be calculated on a cost-recovery basis
- not exceed the standard fee^{AP14}
- be based on an upfront assessment of the level of duplication between the new and an existing section to estimate the level of analysis required

If there is a high level of commonality with an existing section, then the learning gained through supervising the existing section should help in reducing the resource and time required to assess the new application. As above, it will be in trustees' interests to state clearly the commonality and differences between the new and existing sections.

AP12 Regulation 5(2) of the Regulations

AP13 Section 8(2) of the Act

AP14 Regulation 7(4) of the Regulations

Authorisation criteria

Authorisation criteria: overview

We will need to be satisfied that a CDC scheme meets all the authorisation criteria for it to be authorised and able to operate^{AT1}.

The six authorisation criteria are broadly as follows^{AT2}:

A. Fitness and propriety

In this criterion, we are required to assess the person who establishes the scheme and the trustees as well as those who are able to appoint or remove the trustees or amend the trust deed or scheme rules. All individuals being assessed must be able to satisfy us that they are fit and proper because they meet the standards of honesty, integrity and knowledge appropriate to their role. In addition, we will also assess trustees' competence and conduct.

B. Systems and processes

The scheme must have sufficient IT systems in place to run efficiently and have robust governance processes to manage the scheme effectively and comply with all relevant requirements.

C. Member communications

The scheme must have adequate systems and processes to communicate with members so they understand the risks and benefits of the scheme, in particular how the rate or amount of benefits may change.

D. Continuity strategy

Sufficient contingency planning is crucial to the effective running of a scheme and there must be a credible strategy for how members will be protected if there is a triggering event.

E. Financial sustainability

A scheme must have sufficient financial resources to operate at set-up and thereafter following a triggering event without increasing the cost to members.

F. Sound scheme design

A scheme must have a sound scheme design. This should be demonstrated in the **viability report** supported by evidence including appropriate advice from suitably qualified professionals and modelling and testing appropriate to a scheme's complexity.

AT1 Section 9(1) of the Act

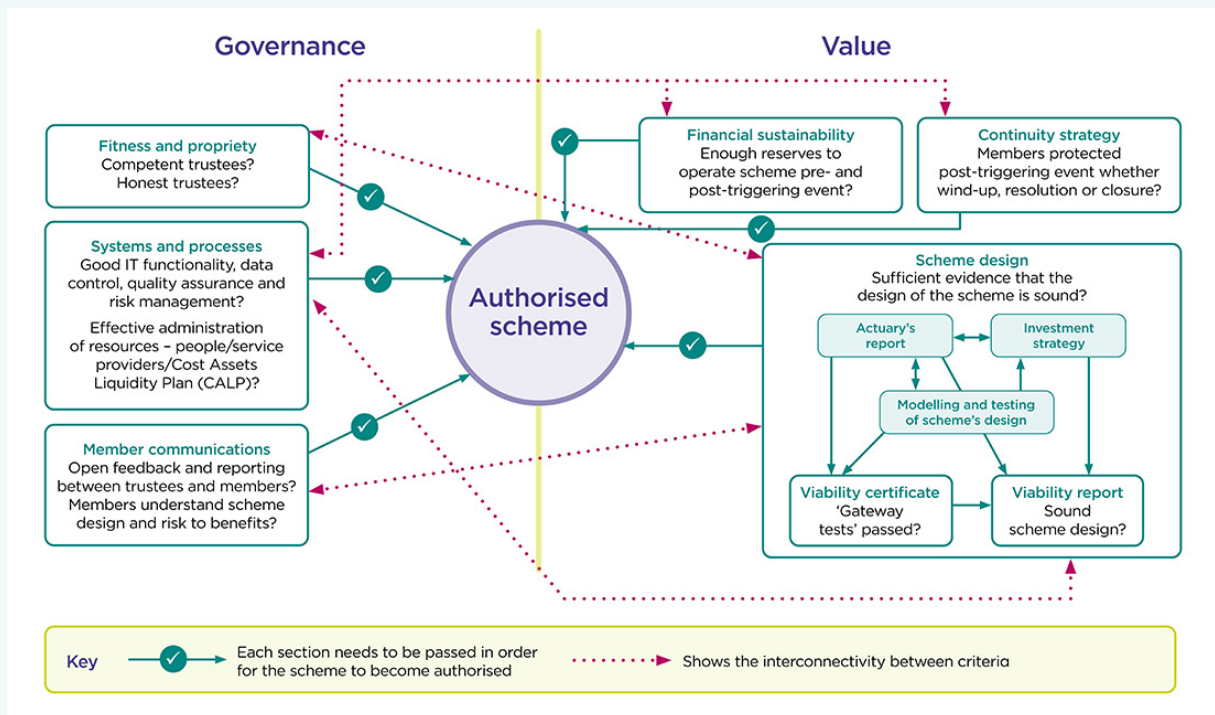
AT2 Section 9(3) of the Act

Interconnectivity between criteria

There are strong links between all the authorisation criteria, and none can be assessed in isolation. For example, we could not approve the fitness and propriety criterion if we were not confident that trustees were competent to assess the scheme actuary’s analysis of whether the scheme’s design is sound, and capable of judging whether it is being communicated appropriately to members.

Figure 1 below summarises the authorisation criteria and the key interrelations between them. It shows that the authorisation framework is a web and not a linear journey, as a change or issue in one area could have a strong bearing on how we assess another criterion.

Figure 1: CDC authorisation criteria



Fitness and propriety

Who we will assess for fitness and propriety

Those fulfilling various roles in relation to a CDC scheme must show that they meet satisfactory standards of fitness and propriety^{WO1}. For a scheme to be (and remain) authorised we need to be satisfied that all relevant individuals can show the appropriate skills and characteristics on their appointment and throughout supervision. If the relevant individuals change at any time after authorisation they will need to be assessed. We will also need to be satisfied that the trustee board as a whole has sufficient competence to carry out its role. The Regulations set out the matters we must consider in our assessment^{WO2}.

Each individual subject to the assessment must provide a declaration and criminal conviction certificate^{WO3}. The other evidence we require will vary from role to role. We will also take into account:

- evidence of competence
- statements of development
- evidence of qualifications or learning programmes
- other relevant professional experience
- matters we consider appropriate, including those relating to a connected person^{WO4}
- matters that occur in and outside the UK

Trustees must:

- identify each person subject to a fit and proper test^{WO5}
- ensure that we receive sufficient evidence about them for us to complete our assessment
- carry out due diligence (to the extent possible) to determine whether the relevant persons meet the requirements to be fit and proper, and identify any action needed

WO1 Sections 9(3)(a) and 11 of the Act

WO2 Regulation 8 and Schedule 1 to the Regulations

WO3 Regulation 6(2)(a)(v) of the Regulations

WO4 Section 11(3)(b) of the Act

WO5 Regulations 6(2)(a) and (b) of the Regulations

Identifying who is subject to the fit and proper test

The Act sets out the persons who we must^{WO6} assess at authorisation and during supervision. Trustees must^{WO7} identify any individual, or group of individuals, who perform one or more of the roles to be assessed for fitness and propriety. We will assess each of those persons.

Where the roles are fulfilled by a corporate entity, we will assess the appropriate senior individuals, but we will not normally assess the corporate entity.

Where an individual or legal entity has more than one role in relation to a CDC scheme, they will be assessed for fitness and propriety in relation to each role. We may look through corporate structures to the individuals on relevant boards who are performing core functions in relation to the scheme. A core function includes an executive or management role carried out in respect of, or on behalf of, a person subject to the fit and proper assessment.

We may also consider other matters, including whether there are any persons connected to those we are assessing that are relevant to our assessment of fitness and propriety.

The person who establishes the CDC scheme

This is the person who entered into the trust deed and rules. They may:

- have provided the initial financial backing for the CDC scheme
- remain connected to the CDC scheme

We will not assess a person who has no decision-making capacity in, or influence over, the scheme.

Trustees

The following people need to be identified:

- All trustees who are appointed as individuals.
- All the directors of a corporate trustee of the scheme.
- All individuals who perform core functions and make decisions on behalf of a trustee director that is itself a corporate body.

WO6 Section 11(2) of the Act

WO7 Regulation 6 of the Regulations

Persons who can appoint or remove trustees

We will assess all persons identified in the trust deed, or other documents, as having the power to appoint or remove trustees. We will not normally assess members who vote as part of an election or selection process.

Persons who can amend the trust deed

We will assess all persons identified in the trust deed, or other documents, as having the power to amend the deed.

We will not normally assess:

- members who vote on or consent to amendments
- employers who can change the admission criteria only for their section or for individual members

How we assess fitness and propriety

The Regulations set out the matters that we must take into account when determining whether we are satisfied that a CDC scheme is operated by fit and proper persons^{HW1}. In assessing this, we will consider the current and past behaviour of persons (conduct), their competence to fulfil the requirements of their role at the scheme, and any relevant financial matters. We will also consider:

- the impact on others of the past or current behaviour or actions
- how long ago the issue occurred
- whether there has been a pattern of behaviour which creates concern

The following modules (**Honesty, integrity and financial soundness**, **Trustee competence** and **Conduct of individuals**) describe the factors that are more likely to satisfy us that a person is fit and proper. In a few serious matters, for example certain unspent criminal convictions or bankruptcy, we are very unlikely to be satisfied that an individual is fit and proper. This is because these are strong indicators that a person lacks the integrity or competence needed to be charged with the care of members' pension savings and managing their scheme.

If an application is submitted where these serious matters are relevant to an individual, trustees should explain how they took reasonable steps to satisfy themselves that the individual meets the requirement to be fit and proper.

In some cases, an individual will automatically be barred under existing legislation from acting in certain capacities; for example, an undischarged bankrupt cannot be a trustee.

HW1 Regulation 8 and Schedule 1 to the Regulations

Honesty, integrity and financial soundness

We must be satisfied about the honesty, integrity and financial soundness of everyone being assessed. We will not be satisfied that an individual is fit and proper if they:

- are subject to a bankruptcy order, bankruptcy restrictions order (including an interim order) or an award of sequestration
- are disqualified from acting as a director due to improper conduct
- are prohibited or disqualified from acting as a trustee (in any capacity)
- have an unspent criminal conviction related to dishonesty, fraud or financial crime^{HN1}

Mitigations – financial matters

If an individual has been, or is likely to be, subject to bankruptcy, a county court judgment (CCJ) or individual voluntary arrangement (IVA), including where a bankruptcy order has been applied for or a bankruptcy petition has been served, we are more likely to be satisfied if:

- the individual was discharged from bankruptcy, the CCJ or IVA more than five years before the authorisation application
- there is no pattern of bankruptcy, CCJs or IVAs
- the CCJs do not indicate a persistent failure to settle outstanding debts

Mitigations – business matters

If an individual was a director or partner of, or concerned in the management of, a business that went into insolvency, liquidation or administration either at the time of the insolvency event or during the 12 months before it occurred, we are more likely to be satisfied if:

- they can show that their action or inaction was not significantly responsible for the failing of that business
- there was only one such failure
- the event occurred more than five years before the application for authorisation

HN1 Paragraph 2 of Schedule 1 to the Regulations

Mitigations – criminal matters

If an individual has an unspent criminal conviction which is not related to dishonesty, fraud or financial crime, we are more likely to be satisfied if:

- the conviction relates to a minor offence, depending on the circumstances of the offence and any mitigating factors
- there has only been one conviction
- the conviction is not relevant to the role being undertaken in the CDC scheme

Mitigations – judgments and settlements

If an individual has been the subject of any adverse judgments or settlements in civil proceedings, particularly in connection with investment or other financial business, misconduct, fraud or the formation or management of a corporate body, we are more likely to be satisfied if:

- there is no pattern of recurrent proceedings or settlements for breach of contract, or failure to fulfil obligations or duties
- the individual being assessed did not have a significant role in the events that led to proceedings being brought
- the impact of their action or inaction on other individuals or organisations was relatively limited
- the proceedings related only to family or private matters

Trustee competence

We will assess individual competence as well as the overall skills and experience possessed by the trustee board^{TU1}. We recognise that not all trustees will be experts, nor do they need to be, and we have set out below different levels of knowledge and experience that are more likely to satisfy us.

Where an individual has not previously been appointed as a pension trustee, or does not have sufficient experience through a previous appointment, we are more likely to be satisfied where:

- They have undertaken training to gain a basic level of knowledge before or at the time of their appointment as trustee. This training should cover what occupational pensions are, understanding DB and DC schemes, the role of the trustee, running a scheme, pension law basics and pension investment basics. This training could be undertaken through our Trustee Toolkit or alternative provision.
- There is also a plan in place to build further knowledge.
- They continue to develop the relevant knowledge, skills and experience throughout supervision.

Where an individual has previously been appointed as a pension trustee we are more likely to be satisfied where:

- They have gained sufficient equivalent knowledge through previous experience as a trustee or in a senior role in a comparable scheme. By senior role we mean a role with accountability and responsibility for the day-to-day running of a scheme, including management, supervisory, technical or compliance oversight roles. By comparable scheme we mean an occupational scheme of similar size and complexity, but not necessarily a CDC scheme.
- They have gained sufficient experience through the Association of Professional Pension Trustees (APPT) or Pensions Management Institute (PMI) trustee accreditation.
- They continue to develop the relevant knowledge, skills and experience throughout supervision.

TU1 Paragraph 3 of Schedule 1 to the Regulations

For all trustees, we are more likely to be satisfied where:

- They have received scheme-specific training on CDC schemes. This should ensure that trustees understand what is being offered to members, the scheme design and key tasks in running the scheme.

The trustee board must:

- demonstrate how competence will be maintained
- demonstrate how they will identify and address skills gaps and increase knowledge

In assessing the trustee board, we are more likely to be satisfied if the board:

- has the skills, knowledge and experience appropriate for governing their CDC scheme
- has a balance of skills and experience across its members
- has a range of diverse skills and experience in senior roles, to include pensions, trusteeship, investment, administration, actuarial work and communications
- has a plan for maintaining and developing the board's knowledge
- has a plan to address any skill gaps
- has processes and standards to ensure that individuals subject to contract, employment or delegation themselves have relevant skills, knowledge and experience
- ensures that any service provider's staff have the necessary skills, experience and integrity

Conduct of individuals involved with the scheme

In assessing conduct, we will consider all relevant circumstances. We must take into account a person's conduct in the five years before the authorisation application, and continuously after authorisation, in relation to any role held that is relevant to the assessed role^{CD1}.

We are more likely to be satisfied of an individual's conduct if:

- they act in an open, honest and transparent manner
- they are responsive to issues that may arise in their scheme
- they seek to improve outcomes for their members
- where an adverse event has previously occurred:
 - there are mitigating circumstances
 - they have acted to reduce the likelihood of it recurring

We are less likely to be satisfied of an individual's conduct if:

- they are, or have been, under investigation by a regulatory authority (including TPR), government agency or professional body
- they are, or have been, subject to disciplinary action by a regulatory authority (including TPR), government agency or professional body
- they have had action taken against them or had permissions or licences removed by a regulatory authority (including TPR), government agency or professional body for reasons of misconduct
- they are subject to disciplinary or criminal proceedings
- they have been notified of potential proceedings, including investigations
- they have been dismissed or forced to resign due to negligence or misconduct from employment or a role involving a fiduciary duty
- they have been dismissed or forced to resign over poor management or failure to resolve a conflict of interest
- there are aggravating factors to any adverse events relevant to the role, including their frequency, severity, impact, and explanation offered

CD1 Paragraph 2(j) of Schedule 1 to the Regulations

Systems and processes

Systems and processes: overview

The trustees of a CDC scheme must satisfy us that it has sufficient systems and processes to run effectively in respect of administration, scheme governance and member communications^{SY1}.

For us to be satisfied, we will assess three main areas:

1. The functionality and maintenance of the IT systems used in scheme administration, governance (and we will use the same basis for assessing the IT systems used for member communications).
2. The structures for governing the scheme.
3. The processes for supporting the different functions to administer and govern the scheme effectively.

While we recognise that a scheme will not have started the administration work before authorisation, we will expect its systems and processes to be developed enough so they can be assessed. We will need evidence to satisfy us that there are sufficient systems and processes in place, and that they will be ready to go live at the point of authorisation.

We recognise that in some matters, trustees may rely on a third party to give them information about how a scheme will be administered. In these circumstances, while the activity itself can be delegated, accountability cannot be delegated, so the trustees must assure themselves of how the requirements are met.

The application should explain how trustees have assessed that the scheme meets the systems and processes requirements.

This could be demonstrated through independent checks, such as agreed-upon procedures, internal audits and scheme documentation, particularly in respect of the functionality and maintenance of IT systems.

If the trustees do not have access to internal expertise to assess systems and processes, the authorisation application should include evidence that the scheme has had an independent external assessment, particularly in respect of the functionality and maintenance of IT systems.

SY1 Sections 9(3)(d) and (e), 15 and 16 of the Act, and Regulations 13 and 14 and Schedules 4 and 5 to the Regulations

IT functionality and maintenance

Functionality of IT systems

The Regulations set out the matters we must take into account in deciding whether we are satisfied that a CDC scheme has sufficient IT systems to ensure that it is run effectively^{IF1}. This applies to both the systems and processes and member communications authorisation criteria.

System functionality is important as it provides a basis for good administration and ensuring that members receive the correct benefits at the right time. It will be difficult for us to be satisfied that a scheme has sufficient IT systems to ensure it is run effectively if the required functionality is not in place and its effective use cannot be demonstrated.

We are more likely to be satisfied where the IT system has the following features:

Requirement	Matters more likely to satisfy TPR
Transactions and annual events	<ul style="list-style-type: none">• The IT system can process transactions and annual events automatically and securely. Transactions include the processing of leavers, retirements, deaths and transfers. Annual events include the annual adjustment exercise and benefit statements.• The system can reconcile data against transactions and annual exercises.• The system can increase and reduce target and in-payment benefits on an annual basis.• There is a process for rectifying errors.• The administration system has segregated duties, with a junior level of clearance to input data and request payments or benefit changes, and a senior level to authorise changes and transactions.• The administration system has authorisation levels to prevent payments of certain sizes exceeding those allowed by the trustee mandate.

IF1 Regulation 14 and Schedule 5 to the Regulations

Functionality of IT systems continued...

Requirement	Matters more likely to satisfy TPR
Member records	<ul style="list-style-type: none"> • The IT system can record members' benefits correctly, including: <ul style="list-style-type: none"> – basic member information; name, date of birth, address, pensionable service, pensionable salary, dependants' information – all contributions – full record of target accrual and annual adjustments – full record of pension payments and annual adjustments – full record of periodic income during wind-up and adjustments made • Details of payments made into or out of the scheme including transfers, deaths and divorce. The IT system can extract the necessary data for the annual valuation using automated routines, including the ability to check data quality. • The IT system is capable of providing complete and accurate data to the Pensions Dashboards.
Administration system payments	<ul style="list-style-type: none"> • The default is for all payments into and out of the scheme to be made electronically, and manual payments are made by exception. • The IT system can make monthly pension payments and calculate and deduct tax.
Member communications	<ul style="list-style-type: none"> • The IT system can produce member communications automatically, including individual transactions and annual exercises. • The system can record members' communication preferences.

Maintenance of IT systems

Having put the appropriate functionality in place, it is important that the IT system is maintained to reflect the scheme's current needs and legal requirements, including the need to protect data appropriately. We are more likely to be satisfied where:

Requirement	Matters more likely to satisfy TPR
Planning for change	<ul style="list-style-type: none"> • Evidence is provided of how known changes to the system are planned and executed, and this is reflected in the governance plans, risk framework and estimates of costs for running the scheme. • If there is no system functionality in place at authorisation to calculate benefits under continuity option 1, evidence is provided on how and when this functionality will be developed and the costs of doing so. We will expect that the development of this functionality would not delay the progress of continuity option 1. • Evidence is provided to show that the system can be updated. • There is a robust methodology for releasing changes to systems, along with a portfolio of ongoing change to systems for a rolling five-year period. • There is an IT process for making scheduled and known changes, including annual updates and changes in tax thresholds. • There are adequate and sufficient resources, with appropriate skills, to carry out the work. • The IT system can meet the expected physical system requirements and the scheme has the funds to meet those requirements. • There are plans for how planned and potential future upgrades can be managed in the administration system and the trustees are satisfied that the system can be upgraded to meet the needs of the scheme. • There is a policy for maintaining, upgrading, and replacing hardware and software, and this is accounted for in the costs of running the scheme.

Maintenance of IT systems continued...

Requirement	Matters more likely to satisfy TPR
Protecting data	<ul style="list-style-type: none"> • There are cyber-defence strategies, including firewalls and intrusion detection systems. • There are procedures and protocols for governance, identifying risks and breaches, and responding to cyber incidents. • There are roles assigned to manage these protocols and procedures. • Scheme, member and communications data are backed up at least daily, with backup servers at an external location and an offline backup. • There is a disaster recovery process with roles assigned, which is tested every six months.

Scheme governance

Good governance is important as it ensures that a scheme is well-run and that issues are managed effectively. Effective governance provides the trustees with oversight of the day-to-day running of the scheme, clear accountabilities and delegations, and a basis for assessing that the scheme is meeting all legal requirements over time. The regulations set out matters that we must take into account in respect of scheme governance as part of the systems and processes requirement^{SE1}.

We expect to see evidence that a CDC scheme has a coherent governance structure with clear accountabilities and delegations, and for trustees to demonstrate how the scheme will be governed on a day-to-day basis. We are more likely to be satisfied where the matters set out below are addressed:

Requirement	Matters more likely to satisfy TPR
Governance map	<ul style="list-style-type: none"> • There is a map setting out the governance structure for the scheme. The purpose of the map is to detail the different governance functions, who is responsible for them and who is also involved. • The map sets out the governance structure split by function. • The map identifies and documents all the functions the trustees think relevant, including: <ul style="list-style-type: none"> – managing the trustee board – administration – investment – risk – actuarial matters – member communications • For each function, the map identifies: <ul style="list-style-type: none"> – a responsible person – all individuals who are involved in decision-making or who have a significant role – any sub-committees • The map is reviewed at least annually.

SE1 Paragraph 8 of Schedule 5 to the Regulations

Requirement	Matters more likely to satisfy TPR
Responsible persons	<ul style="list-style-type: none"> • A responsible person is identified for each function. This is the person who has day-to-day responsibility for managing the function and will manage the planned work set out in the objectives statement. • This needs to be an individual who falls within the fit and proper regime. • A statement is provided to explain why the responsible person has sufficient skills to manage the function. • The responsible person has relevant experience in the function they are responsible for. This should also be reflected in the evidence provided for the fit and proper assessment. • Where an individual is a responsible person for more than one function, there is an explanation of how they will have the capacity to manage multiple functions.
Objectives	<ul style="list-style-type: none"> • A statement is provided for each function, setting out the aims and objectives and key tasks to be undertaken. • Key risks are identified and fed into the main risk schedule. • There is a plan of work for the year ahead. • All subcommittees are identified, and membership and meeting dates identified. • It is clear who the decision-makers are and who has to be consulted. • The statements include the type, source and frequency of management information necessary to enable effective monitoring. • The statements reflect the matters identified below in the processes module. • The statements are reviewed annually and revised as needed.

Processes

The Regulations set out the matters that we must take into account in deciding whether we are satisfied that a CDC scheme's processes are sufficient to ensure that it is run effectively^{PR1}. This code uses processes to mean policies, processes and procedures. These processes underpin the governance framework, and we expect to see them reflected in that framework.

If a CDC scheme does not have all the relevant processes, we are unlikely to be satisfied that the authorisation criteria have been met. Once the scheme has entered live running, we expect to see evidence that the processes are used in running the scheme and that they are effective.

We expect to see provision for processes to remain sufficient and for it to be clear how and when they will be reviewed.

In assessing processes, we are more likely to be satisfied where the matters set out below are addressed.

Managing the trustee board

Requirement	Matters more likely to satisfy TPR
Trustee recruitment	<ul style="list-style-type: none">• It is clear who is responsible for the recruitment and selection process and what input is required from other parties.• It is understood which skills and competencies need further development on the trustee board as a whole, and how this is monitored over time.• There is a succession plan to maintain the skills and competencies needed by the Board.• The principles for determining trustee remuneration are assessed and agreed.• There is an agreed budget for trustee training.• Fitness and propriety are assessed on an ongoing basis, along with any potential conflicts of interest and how these are managed or resolved.• A resignation and removal policy is in place, which makes clear who can remove a trustee, how, and under what circumstances.

PR1 Regulation 14 and Schedule 5 to the Regulations

Managing the trustee board continued...

Requirement	Matters more likely to satisfy TPR
Diversity and inclusion	<p>Trustee boards benefit from access to a range of skills, views and expertise as that supports robust discussions and decision-making. We expect to see that:</p> <ul style="list-style-type: none"> • there is a policy on diversity and inclusion • the policy includes objective selection criteria • consideration has been given to using inclusive language in advertising for roles • flexible working has been considered for roles • there is the ability to capture and monitor data on diversity and inclusion
Trustee governance	<p>There is clarity about:</p> <ul style="list-style-type: none"> • the frequency of trustee meetings and under what circumstances this may change • the circumstances where extraordinary meetings may be called and how • trustees' expectations in preparing for meetings and the actions needed in between them • who is responsible for setting the agenda and frequency for trustee meetings and who else is consulted in developing an agenda (for example trustees or employer) • standing agenda items • the quorum at trustee meetings • who decides in a scenario where both the employer and trustee have an interest, including a clear process for trustees to express and record their views if the decision falls to the employer • the process for notifying trustees of breaches of the law, and the corresponding process for monitoring breaches and determining whether they should be reported to TPR • the process for notifying trustees of significant and triggering events and reporting them to TPR

Managing the trustee board continued...

Requirement	Matters more likely to satisfy TPR
Managing service providers	<ul style="list-style-type: none"> • Service providers are assessed before appointment, including access to due diligence carried out as part of the appointment process. • Performance indicators are agreed and documented on appointment and the service provider is accountable, with escalation points, for ensuring the indicators are met. • The performance indicators are considered regularly by an appropriate person, outcomes are recorded, and all actions are allocated and tracked. • Service providers and advisers are kept under review, including detailed criteria for assessment (and key performance indicators (KPIs) and service level agreements (SLAs) if they apply). • Trustees can show how they establish that their service providers are qualified and experienced to meet the needs of the scheme. This may include evidence of the checks carried out by service providers on new staff and how tender processes are operated. • The role of the trustee board and employer is clear if a decision is needed to replace any service provider. • The terms of appointment of each service provider include clear lines of responsibility for ensuring a smooth handover with no interruption of service if the service provider is replaced. • There is a clear process for ensuring information about the performance, evaluation and ongoing suitability of service providers, including any issues or concerns, is brought to the attention of the trustees in a timely manner. • Trustees can show that they understand and are familiar with the contracts and agreements (and any impacts on service or ability to act) with all service providers to the scheme. There should also be a written process documenting how these can be updated and agreed.

Managing the trustee board continued...

Requirement	Matters more likely to satisfy TPR
Planning resources	<ul style="list-style-type: none"> • All key administrative tasks, including the timely sending of notifications and documents to TPR, are fully documented with detailed end-to-end processes. • These process documents and maps are reviewed regularly, particularly as part of a system or process change, to ensure that enough human resources are allocated. • Key resources, with the skills and experience to deliver the objectives in the business plan, have been identified and there is a plan to ensure continuity of service. • There is awareness of the timeframes required to bring new human resources on board and what contingency is in place to mitigate any under-resourcing due to increased work volumes or loss of staff.

Administration

Requirement	Matters more likely to satisfy TPR
Record-keeping	<ul style="list-style-type: none"> • The process directs how records are kept up-to-date and exception reporting is in place to ensure that errors and gaps are reported to the relevant governance function. • There is a plan to rectify data errors, and the continuity strategy reflects the impact of data quality in the scheme. • There is evidence of service provider agreements that include provisions, roles, responsibilities and source of funds for resolving errors that impact members. • The process sets out the action that will be taken to put members in the correct position if errors or inconsistencies are found.
Member events	<ul style="list-style-type: none"> • There are documented processes for member events including leavers, deaths, retirement and transfers. • There is a process for managing member events and choices during a triggering event.
Annual exercises	<ul style="list-style-type: none"> • There is a process for the annual valuation data extract to ensure that it is complete, accurate and timely. • There is a process for calculating the annual benefit adjustment, loading the data onto the system and notifying members of any changes.
Contributions	<ul style="list-style-type: none"> • The scheme can quickly identify missing contributions and there is an effective process in place to chase them. • In the event of an employer insolvency or claim on the Redundancy Payments Service, there is a process for reclaiming any outstanding contributions from employer assets. • There is a process for rectifying missing contributions. • There is a log of missed contributions, which includes actions taken in response to the missed contributions.

Investment

Requirement	Matters more likely to satisfy TPR
Investment governance	<p>The trustees, on an ongoing basis:</p> <ul style="list-style-type: none"> • take adequate advice from appropriate advisers • can show a logical connection between the trustees' declared investment philosophy and the investment strategy being pursued • can show they have the necessary expertise to fulfil their fiduciary responsibilities as they relate to investment • can show a thorough understanding of the investment strategy from the perspective of risk, return, markets, asset class and outcome • have a process for managing real or perceived conflicts of interest in the governance framework • will identify any deviation from the agreed investment strategy guidelines that would have required their approval • immediately address any material breaches of the investment management guidelines they have contractually agreed to with their suppliers • have processes to deliver data that enable them to effectively analyse and review their investment strategy

Investment continued...

Requirement	Matters more likely to satisfy TPR
Managing people	<p>It is clear who manages the key investment functions and who is accountable for:</p> <ul style="list-style-type: none"> • providing investment advice • the investment management guidelines and permissions • implementing all aspects of the investment management strategy and subsequent oversight of it • ownership of the investment governance framework • design and ongoing review of investment strategy • portfolio construction, eg multi-asset and/or fund of funds structures • selecting investment managers and their ongoing review • cashflow management • processes to implement change to the investment strategy • policy on environmental, social and governance (ESG) issues and climate change

Investment continued...

Requirement	Matters more likely to satisfy TPR
Data	<p>There is sufficiently detailed information to enable trustees to monitor investments effectively, including:</p> <ul style="list-style-type: none"> • evidence of adherence to the agreed formal investment management agreements that the trustees enter into with the various suppliers of investment services • details of the investment returns and the risk profile of the investment strategy, which are consistent with their stated objectives • a suitable range of risk metrics, which trustees use to inform their ongoing assessment of returns • detailed performance attribution analysis of the investment strategy, including benchmark and peer group relative performance • details of any material breaches of investment guidelines and corrective action taken to prevent reoccurrence together with any agreed restitution • a framework that enables trustees to assess the continued suitability of the investment strategy

Risk

Requirement	Matters more likely to satisfy TPR
Risk management	<ul style="list-style-type: none"> • There is an ongoing process for identifying, recording, measuring, monitoring, prioritising and resolving risks, including investment risks. • Appropriately skilled individuals are responsible for monitoring risk against the work planned and aims and objectives, with access to the management information and intelligence they need to carry out this task properly. • Information and relevant data are received regularly (at least quarterly) from the accountable individuals to enable the risk register to be properly updated and investment risk analytics to be monitored. • The trustees have documented how issues identified through risk management will be resolved by the accountable individuals. • There is a risk register to support the ongoing monitoring of risks and it has been considered and agreed: <ul style="list-style-type: none"> – The risk register is regularly reviewed in detail by trustees, with considerations and decisions being documented and ownership and actions attributed, along with timelines for delivery. – An annual review is conducted to ensure no additional risks have arisen that should be included on the risk register.

Actuarial

Requirement	Matters more likely to satisfy TPR
Annual exercises	<p>There must be effective processes for actuarial matters. The annual valuation is the backbone of annual scheme work and we expect to see:</p> <ul style="list-style-type: none"> • a plan for managing the valuation on an annual basis • a process for extracting and checking the valuation data • clear dates for the stages of work needed and sign-offs • provision to give adequate notice to pensioner members if their income is adversely affected • a process for completing the viability certificate and alerting all relevant parties, including TPR, if issues are identified

Member communications

It is well understood that effective communications are critical to the success of a CDC scheme. It is imperative that members understand the risks and benefits of the scheme. Clear and accessible information for members on how their benefits may increase or decrease will be crucial.

We expect there to be a focus on producing member communications as well as the IT functionality needed. (Note that we will assess the functionality, quality and maintenance of the **IT systems** used for member communications on the same basis as the IT systems more generally.)

To produce effective communications, there must be appropriate systems and processes in place and individuals who have appropriate skills to undertake the planning and assessment work^{MM1}. In assessing the scheme, we will expect to see the following:

Requirement	Matters more likely to satisfy TPR
People	<ul style="list-style-type: none">• There is a responsible person with appropriate expertise.• There are individuals appointed who have the appropriate skills to develop, assess and implement effective communications. If outsourced, we expect the same due diligence to be conducted as for other external service providers.• The planned resources include all relevant parties, including the scheme actuary, administrator, employer and representative bodies such as unions.• The necessary individuals have enough capacity to do the work needed.

MM1 Paragraph 4 of Schedule 4 to the Regulations

Member communications continued...

Requirement	Matters more likely to satisfy TPR
Communications plan	<ul style="list-style-type: none"> • There is a plan for producing and issuing member communications. • The plan needs to set out activities for the year and must cover reviews of communications, member engagement and reporting. We do not expect all scheme communications to be reviewed each year but do expect regular reviews of key communications that impact members. • It should include a mechanism to measure the effectiveness of the member communications in increasing member engagement with the scheme (for example developing an engagement dashboard). • The plan covers all new and existing legal requirements in respect of member communications. • The plan includes the scheme actuary's annual review for the viability certificate.
Quality assurance	<ul style="list-style-type: none"> • There is an evidence-driven process for creating, reviewing (including that the content is accurate and not misleading) and maintaining member communications in a timely manner. • There is evidence that the distribution channels used are appropriate and accessible for the membership. • There is a clear process for proactively reviewing member communications, as well as reviews following feedback, to ensure they remain fit for purpose. • The process seeks and incorporates feedback from trustees, employers, members, unions or other representative bodies. • There is evidence of how the process has been used to develop key communications such as the member booklet and annual benefit statement.

Member communications continued...

Requirement	Matters more likely to satisfy TPR
Members	<ul style="list-style-type: none"> • Members are actively encouraged to give feedback on communications and raise concerns. • There are clear and simple channels for members to give feedback. • As part of the process of developing and routinely maintaining communications, views must be sought from a range of members who are representative of the membership as a whole. • This process needs to test whether that range of representative members are able to understand the communication, including the description of any impact on their benefits and the level of risk involved. We will also want to understand how this work will be used to improve the effectiveness of member communications. • There is evidence of the methods used to gather member feedback and its outcomes. This could include surveys to establish members' understanding of the risks and benefits. • Where ad hoc feedback is received from members it must be considered and, where appropriate, acted on.

Member communications continued...

Requirement	Matters more likely to satisfy TPR
Reporting ^{MM2}	<ul style="list-style-type: none"> • A report must be provided to the trustees on how feedback from members has been taken into account: <ul style="list-style-type: none"> – This report should be provided quarterly, or at a different frequency to align with trustee meetings. – It should summarise the feedback from members (unless no feedback has been received in that quarter) and whether it was proactively sought from members or whether concerns had been raised by members. – It should set out any complaints received in respect of member communications. – It should set out how the feedback has been considered and what action will be taken. The rationale for making changes, or not, should be set out. – The purpose of the report is to enable trustees to monitor progress against the communications plan and identify any additional actions needed. • A report must be provided to members on how their feedback on communications has been taken into account: <ul style="list-style-type: none"> – This report should be provided at least annually. – It should summarise the feedback from members and any action that has been taken in response. – It should explain why changes have or haven't been made. – It should summarise any planned work on communications over the next reporting period. – It should explain the importance of members reading and understanding communications from the scheme, and how they can raise concerns and give feedback.

MM2 Paragraph 6(d) of Schedule 4 to the Regulations

Financial sustainability

Overview

Trustees must satisfy us that they have access to sufficient financial resources to operate their scheme before and after a **triggering event**^{FN1}. This can be demonstrated in different ways. We will expect schemes to provide relevant evidence to support their calculations of running costs.

Our assessment of the scheme's financial sustainability will also take account of the evidence presented in relation to **systems and processes**, and the **continuity strategy**.

The evidence required will depend on the circumstances of the scheme and will include the **costs, assets and liquidity plan** (CALP) and any other evidence necessary to demonstrate a scheme's financial resources.

Where a scheme relies on **employer support**, the trustees and each relevant employer must demonstrate that together they can meet the financial sustainability requirements^{FN2}.

A scheme that cannot meet the financial sustainability requirements at any point may not satisfy us that it should remain authorised.

Matters we must take into account in assessing a scheme's financial sustainability^{FN3}

We require sight of, and will consider:

- the scheme's CALP
- evidence of any **financial reserves** held for supporting the activities of the scheme
- documentary proof of any support offered by the employer(s)
- details of any joint bank account or escrow held by or on behalf of the trustees and employer
- relevant extracts of the scheme's trust deed and rules, which govern expenses and winding-up arrangements
- details of service contracts and insurance policies held by the trustees
- any other documents that the scheme can show to be relevant – see **other ways of meeting scheme costs**

FN1 Section 14(2) of the Act

FN2 Paragraphs 2(f) and 3(e) of Schedule 3 to the Regulations

FN3 Regulation 12 and Parts 2 and 3 of Schedule 3 to the Regulations

Overview continued...

Running costs^{FN4}

Running costs are the costs of setting up and running the scheme on an ongoing basis, whether in-house or outsourced.

We do not require trustees to maintain a reserve for running costs, although they may do so. We will focus on the expected and realised costs of the scheme, the ability of the scheme and employer to cover them, and the enforceability of any commitment of support.

Where costs of setting up the scheme have been incurred and fully paid at the point of application, they do not need to be included in a calculation of running costs. However, any such costs that are still outstanding, or yet to be incurred, will have to be detailed.

FN4 Section 14(2)(a) of the Act

Financial resources

To satisfy us that they meet the **financial sustainability** criterion, all schemes should have access to sufficient financial resources to meet the costs following a triggering event identified in their **costs, assets and liquidity plan** (CALP). The composition of these resources may be adjusted over time as the scheme grows and matures.

Available financial resources must be sufficient to keep a scheme running after a triggering event, while that triggering event is resolved, and if the scheme is wound up and members transferred out. The resources calculated should be broken into two separate strands:

1. An amount sufficient to allow the scheme to continue to operate for a period of two years following a triggering event (the run-on period).
2. An amount sufficient to cover the additional costs following a triggering event (the costs of compliance).

Run-on period^{FA1}

We can set the length of the run-on period and trustees should assume a run-on period of 24 months. Trustees may be able to show that a shorter period is appropriate in some situations. When calculating the resources needed for the run-on period, trustees should make reasonable allowance for variations in staffing or overhead costs throughout the period of the continuity option.

Costs of compliance^{FA2}

The costs of compliance relate to the specific costs arising from a triggering event. In calculating the costs of compliance, trustees should, as a minimum, make allowance for:

- additional spending on member communications
- data cleansing
- professional services, including actuarial, legal and accountancy advice
- contract break clauses
- staff termination or redundancy payments
- contracting staff
- additional work and communication from members who choose not to follow the default

FA1 Section 14(2)(b)(ii) of the Act

FA2 Section 14(2)(b)(i) of the Act

Calculation of financial resources^{FA3}

Trustees should consider the points below where their financial resources are met in whole or part by financial reserves. Trustees may also rely on legally enforceable **guarantees from employers** or group companies in lieu of maintaining financial reserves. In these situations, they should still consider the points below to ensure that the necessary support is always available.

In relation to financial reserves, trustees should:

- a. have first call on any assets held by or available to trustees to meet the costs, including any held by an employer for the scheme^{FA4}
- b. be able to provide evidence that they have first call on the necessary support
- c. be able to access the necessary support if there is a triggering event of any type
- d. be able to show that any guarantor can provide the support they are committed to
- e. regularly review and adjust the value of the **financial reserves** they hold to account for their liquidity, scheme membership and demographics, and possible market movements
- f. be able to show that they have access to sufficient financial resources at all times
- g. perform their own prudent calculations of the costs arising from a triggering event
- h. base their calculations on what they calculate to be the more expensive of **continuity options 1 and 2**^{FA5}
- i. expect us to ask additional questions about the assumptions used in calculations before we are satisfied
- j. calculate their required financial resources based on a triggering event occurring between three and five years in the future
- k. when deciding the forecast period, consider various factors including the growth and demography of scheme membership
- l. ensure any estimates are consistent with the figures used in their CALP
- m. regularly, and at least annually, revisit their calculations to ensure they contain appropriate cost estimates
- n. continuously monitor and maintain their forecast financial reserves

FA3 Section 14(2) of the Act

FA4 Paragraph 4(b) of Schedule 3 to the Regulations

FA5 We do not expect schemes to reserve for Continuity Option 3 (running as a closed scheme) until there is a prospect of this being a viable option

Other ways of meeting scheme costs

Some trustees will rely on **support from their participating employers** to meet some, or all, of the costs of the scheme. Others will maintain financial reserves to meet or contribute towards scheme costs – particularly those arising after a triggering event. This module details other financial arrangements we will consider in assessing the financial sustainability of the scheme.

Indemnities, insurance and compensation

We will consider any insurance policies or indemnities held by trustees in relation to running costs or financial resources that provide cover for certain costs^{OT1}. We will need to be satisfied of:

- the details of the policy or indemnity
- the provider
- the policy holder
- the beneficiary
- any limitations of the insurer's liability
- the security, strength and enforceability of the indemnity
- the ability of the person providing it to deliver that indemnity
- the likelihood of any insurance paying out
- the likely time needed to settle any claim

If the beneficiary of the insurance or indemnity is not the trustee, we may place less weight on its value. We will also consider the cost of any policy in assessing whether it remains a viable part of a scheme's financial sustainability.

OT1 Paragraph 2(j) of Schedule 3 to the Regulations

Fixed cost and compensation arrangements

If the scheme has a fixed-cost arrangement with a service provider to provide services regardless of the actual cost to the provider, we will take this into account^{OT2}. We will need to be satisfied that the trustees have considered any services that might fall outside the agreement and the terms on which it may be reviewed, varied, and renewed.

We will also consider any compensation that might be payable to scheme members after a triggering event^{OT3}. We will need to be satisfied of the compensation provider, the basis and timescale over which compensation may be payable, and any limits on the compensation available.

We will usually not consider any cover provided by the Financial Services Compensation Scheme (FSCS) as part of the scheme's financial sustainability requirement. If trustees believe their treatment by the FSCS is likely to be different from other schemes, they should draw this to our attention.

OT2 Paragraph 2(i) of Schedule 3 to the Regulations

OT3 Paragraph 3(k) of Schedule 3 to the Regulations

Employer support

An employer may put in place a suitable financial vehicle or contract guaranteeing the trustees access to sufficient funds to run the scheme and/or to replace the scheme's **financial reserves**. Any such support will need to ringfence and guarantee^{EM1} the necessary resources for the financial sustainability of the scheme.

Financial reserves are not required where there are legally enforceable commitments or guarantees in place from employers or group companies to cover the costs arising from a triggering event.

We will expect to see evidence that the trustees have first call on the necessary support^{EM2}. In all cases, we will need to be satisfied that the trustees will be able to access the necessary support, and that the employer or guarantor can provide it^{EM3}, if there is a triggering event of any type.

Information about the employer

Where a participating employer has agreed to provide support for the **ongoing costs of the scheme** or provide some, or all, of the required **financial resources** trustees must provide the following financial information about the employer^{EM4}:

- a cash flow statement for the previous 12 months, including any undrawn overdraft facility or revolving credit facility
- forecast and actual profit and loss for the previous 12 months
- budget for the year to date and any variation from that budget
- cash resources
- cash flow forecast for the following four quarters
- operating costs
- inter-company loans and other forms of funding
- the employer's most recent annual report and financial statements
- details of any significant risks the employer is exposed to and its strategy for mitigating them
- the annual report and financial statements of any third-party providing material financial support to the employer
- where any item in this list is unavailable, an explanation of why it cannot be provided

EM1 Paragraph 4(c) of Schedule 3 to the Regulations

EM2 Paragraph 4(b) of Schedule 3 to the Regulations

EM3 Paragraphs 2(f) and 3(e) of Schedule 3 to the Regulations

EM4 Paragraph 1(a)(vii) of Schedule 3 to the Regulations

In addition, we are more likely to be satisfied that this criterion is met if trustees provide:

- any additional information that we ask for to be satisfied that the employer or group can provide adequate financial support to the scheme
- any further evidence that supports an application

We are not obliged to consider evidence that we have not asked for, but we will not reject it unreasonably.

Where the supporting employer is part of a corporate group, the financial information above must be provided at a level appropriate to the employer's position in the group^{EM5}. We may also ask for information about other group companies if we feel their operations or liabilities may affect the scheme or limit the ability of the employer to support it.

We do not require this financial information where an employer's only commitment is to pay contributions for the members it employs.

A scheme may be supported by more than one employer, and we will consider the financial position of each employer that we consider relevant^{EM6}. We may choose to accept any case made by the trustees that stronger employers can absorb more potential costs. We will require evidence of the legal enforceability of a debt on any such employer^{EM7}.

Accounts

Where the auditor expresses a qualified or adverse opinion or disclaims their opinion on any supporting employer's financial statements, or the auditor's report contains a material uncertainty related to going concern paragraph, or an emphasis of matter we consider to be significant or relevant, we will consider whether the employer is able to support the scheme.

Any supporting employer should disclose any reliance on third-party financial support. We will need to see the accounts of any such third party.

EM5 Paragraph 1(a)(vii)(ii) of Schedule 3 to the Regulations

EM6 Paragraphs 2(f) and 3(e) of Schedule 3 to the Regulations

EM7 Paragraphs 2(h) and 3(f) of Schedule 3 to the Regulations

Costs, assets and liquidity plan (CALP)

The CALP gives key financial information to help us assess whether the scheme meets the **financial sustainability requirements**. We expect the CALP to be consistent with the other information presented by the scheme, especially the **continuity strategy**.

The trustees should produce the CALP with the co-operation of any sponsoring employers.

The CALP should:

- a. cover a period of three to five years from the point the trustees agree it
- b. include an estimate of the trustees' risk appetite for their financial reserves and any support from employers
- c. contain a statement about the level of prudence in their estimates
- d. include an assessment of the different levels of liquidity needed throughout the period covered by the CALP and continuity strategy
- e. identify the resources allocated to each section separately where there is more than one section
- f. include an explanation of assumptions and levels of prudence adopted in various elements of the document
- g. give a range for any variable items, explaining how that range was reached
- h. explain why any element omitted from the CALP cannot be provided

The information in the CALP is grouped into four sections:

1. Costs in relation to benefits
2. Income in relation to benefits
3. Assets held to meet costs in relation to benefits
4. Liquidity of those assets

Costs in relation to benefits

The CALP must include the following information in relation to the costs of running the scheme:

- a. The estimated cost of running the scheme for each year of the period covered by the CALP, including^{CS1}:
 - the costs paid to asset managers or an in-house team to manage the scheme's funds, whether deducted at source or not
 - the costs incurred to implement the investment strategy
 - the costs of advice taken on investments
 - the remuneration and overheads associated with paying trustees and staff
 - the cost of professional services commissioned by the trustees, such as actuarial, audit and legal advice
 - the cost of scheme administration, activities associated with receiving and reconciling payments, compliance and communications to members
 - any costs incurred by the employer, including planning, communication, marketing and any dedicated support provided by them to the scheme
- b. Details of any actual or potential financial liabilities arising from any contract between the trustees or sponsoring employer and any service provider to the scheme.
- c. The estimated costs arising from the scheme's compliance with the duties in its continuity strategy, including:
 - a breakdown of the activities required to discharge the duties in the continuity strategy
 - an estimate of the compliance cost for each activity identified
 - the amount of assets required for the scheme to meet those costs

CS1 Paragraph 1(a)(ii) of Schedule 3 to the Regulations

Costs in relation to benefits continued...

- d. The estimated cost of running the scheme for two years^{CS2} after a triggering event, or any shorter period agreed by us, including:
- an estimate of the length of time needed to run the scheme in accordance with its continuity strategy after a triggering event
 - an estimate of the monthly gross cash cost of running the scheme
 - an estimate of the gross cash run-on costs for two years after a triggering event
 - the assumptions used in those estimates
- e. Details of the following costs, and the strategy for ensuring that the scheme's financial resources are sufficiently liquid to meet them as they fall due:
- the estimated costs of complying with the continuity strategy during a triggering event period
 - the estimated cost of closing and winding up the scheme after the transfer of assets
 - the maintenance of reserves if the scheme is following continuity option 3
- f. Any provision made by the trustees and employers to fund contingent liabilities in respect of the scheme.
- g. Details of the expected cash flows into and out of the scheme for every year of the period covered by the CALP.
- h. Details of any existing or expected borrowing by the trustees, including the identity of the lender, the loan amount, the interest rate, the repayment date, and any security taken by the lender.
- i. For new schemes, or sections of them, the estimated, projected or actual cost of setting up the scheme or section.

CS2 Section 14(2)(b)(ii) of the Act and Paragraph 1(b)(ii) of Schedule 3 to the Regulations: estimates of run-on costs must cover a period of between six months and two years, but we are less likely to accept periods of less than two years

Income in relation to benefits

The following items must be detailed^{CS3}:

- a. The anticipated scale of the scheme at milestones set at least annually for the period covered by the CALP. The choice of details provided at each milestone is at the discretion of the trustees, but should as a minimum include:
 - the number of members in the scheme, including estimates of those accruing benefits, deferred and drawing benefits
 - any income from contributions paid to the scheme
 - the assets under management or administration in respect of benefits
 - any income from charges on assets under management or administration in respect of benefits
 - any income from charges paid by participating employers
 - any income from assets not designated to providing benefits
 - the number of participating employers in any sections of the scheme providing CDC benefits
 - the assumptions and dependencies on which the information presented at each milestone depend, together with a sensitivity analysis of those assumptions.
- b. Any sources of income for the scheme, including the estimated income from each source, for each year of the period covered by the CALP.
- c. The principal sources of income of each participating employer, as detailed by that company's strategic report, to the extent that the income is available to the scheme.
- d. An estimate of the monthly gross income due to the scheme for two years after a triggering event, or any shorter period determined by us, with reference to:
 - the number of members accruing, retaining or being paid benefits
 - any income from contributions received in respect of benefits
 - the assets under management or administration
 - any income from charges on assets under management or administration
 - any income from charges paid by participating employers
 - the number of participating employers in any sections of the scheme providing CDC benefits
 - the assumptions used in arriving at these estimates

CS3 Paragraph 1(a)(iii) of Schedule 3 to the Regulations

Assets

The CALP must include details of the assets held by the trustees to meet the financial sustainability requirements, including^{CS4}:

- a. a description, including values, of any **haircuts** applied to the assets at the effective date of the CALP
- b. the percentage of the scheme's financial sustainability requirement met by the assets
- c. the strategy for meeting any shortfall between the scheme's income and the costs it will experience during the period covered by the CALP
- d. details of any escrow agreement, bank guarantee, letter of credit, guarantee, commitment, indemnity, legally binding agreement or insurance policy held by the trustees intended to cover any aspect of the financial sustainability requirement
- e. the strategy for maintaining the short-term solvency of the business operations supporting the scheme. This includes information about the scheme's ability to pay for services as those liabilities fall due.
- f. the text of any provision in the trust deed and rules providing that trustees, employers or third parties must pay the amounts shown in the 'Costs in Relation to Benefits' section of the CALP
- g. the text of any provision in the trust deed and rules that empowers any person to change the rule about who is liable to meet the costs of the scheme
- h. details of any existing or expected lending by the trustees, including the identity of the borrower, the loan amount, the interest rate, the repayment date, and any security taken by the trustees
- i. where the scheme is reliant on an employer, or employers, to support the costs of the scheme the information set out in the **Employers** section

CS4 Paragraphs 1(b)(iv) and 3(c) of Schedule 3 to the Regulations

Liquidity

A triggering event can lead to immediate costs at short notice. Trustees must therefore be able to show the high liquidity of at least half of the reserves supporting their projected running costs for 12 months from the date of their most recent CALP^{CS5}.

The way funds are held in each scheme is likely to be different and in keeping with the way it is funded and operated. However, we are unlikely to be satisfied by a scheme:

- a. with cash, or near cash, assets that are less than 25% of projected running costs (if reserved for)
- b. with cash, or near cash, assets that are less than 15% of the calculated necessary financial resources
- c. that holds a significant level of non-marketable or illiquid assets in its financial reserves
- d. with marketable assets held as part of the financial reserves that are not admitted to trading on regulated markets
- e. that relies on the sale of directly held physical assets, for example property, as an element of its financial reserves
- f. where more than 20% of the scheme reserving requirements are directly met by charges on, or revenues from, scheme assets

CS5 Paragraph 4(a)(i) of Schedule 3 to the Regulations

Financial reserves and haircuts

Apart from a minimum amount for liquidity, we do not prescribe the assets that a scheme must hold in any reserves that it maintains. However, trustees must apply a discount, or 'haircut', to the current or book value of the assets held for reserving purposes^{FC1}. The asset types set out in the table below are those we consider appropriate for inclusion in a scheme's financial reserves.

The haircut modifies the present value of an asset or holding. For example, an asset with a current value of £100 and a haircut of 20% would be valued at £80 for the purposes of the financial reserves. This means that the current value of assets held by, or guaranteed to, the trustees in their **financial reserves** will be greater than that set out in the **costs, assets and liabilities plan** (CALP).

Trustees should choose the haircut that most closely represents each type of asset in their financial reserves. There are different haircut values for each class of asset, reflecting different levels of risk depending on the length of time before they are expected to be called on. Trustees should consider this when assessing the assets they hold in their reserves and the liquidity they require. The haircuts applied to assets may influence the choice of assets that the trustees include in their financial reserves.

Unless otherwise stated, we assume all asset prices are in pounds sterling. If they are not, we will expect trustees to have assessed the currency risk that the asset is exposed to, or to have included the costs of hedging activities in the CALP.

Schemes may hold their entire reserves in cash but should ensure that the CALP allows for the effects of inflation.

We will expect any debt instruments the scheme holds in its financial reserves to be of investment grade, as determined by a recognised ratings agency.

Financial commitments or **guarantees issued by participating employers** or group companies will be assessed for the ability of the relevant entity to support that commitment or guarantee, and the time that will be needed to deliver that support.

Schemes with financial resources covered by employer guarantees should aim to build their financial reserves to a point where they fully meet the financial resources they require. Trustees building their assets in this way should regularly monitor their progress towards holding their full financial resources.

FC1 Paragraph 4(a)(ii) of Schedule 3 to the Regulations

Asset class	Description	Haircut			
		Running costs	Financial reserves for costs rising		
			Within 1 month of a triggering event	Between 2 and 12 months of a triggering event	>12 months of a triggering event
Scheme funds	Assets not attributable to members that are available to pay scheme costs	As underlying assets			
Cash	Cash including fixed-term deposits from eligible counterparties and money market funds	0%	0%	3%	6%
PRA regulated participating employer guarantee	Legally enforceable guarantees issued by a PRA-regulated participating employer or parent company which are not considered as debt instruments	0%	0%	5%	5%
Participating employer guarantee	Legally enforceable guarantees issued by participating employer or group company which are not considered as debt instruments	0%	25%	10%	10%

Asset class	Description	Haircut			
		Running costs	Financial reserves for costs rising		
			Within 1 month of a triggering event	Between 2 and 12 months of a triggering event	>12 months of a triggering event
Scheme revenues	Revenues generated by the scheme from charges on assets (annual management charge) or members, based on most recent audited accounts	10%	10%	20%	30%
Scheme income	Income received from participating employers for covering costs, based on most recent audited scheme accounts	10%	10%	20%	30%
Government and public sector debt	Government debt (eg bonds, gilts), debt issued by central banks, government agencies, local government etc	5%	5%	5%	5%
Supranational institution debt	Debt issued by the European Investment Bank, World Bank etc	10%	10%	10%	10%
Corporate debt	Corporate bonds, including bonds issued by banks or credit institutions	25%	25%	25%	25%

Asset class	Description	Haircut			
		Running costs	Financial reserves for costs rising		
			Within 1 month of a triggering event	Between 2 and 12 months of a triggering event	>12 months of a triggering event
Asset-backed securities	Bonds or notes backed by financial assets, excluding mortgage loans	25%	25%	25%	25%
Equities	Shares listed on a regulated market	50%	50%	25%	10%
Gold/precious metals	Certifications and bullion	75%	75%	75%	75%
UK government issued loans	Guarantees issued by government departments (eg the Department for Work and Pensions) which are not considered as debt instruments	0%	0%	0%	0%
Property assets	Scheme office premises or other property available on first call	90%	90%	70%	50%
Insurance	Policies held by trustees to cover normal scheme running costs	0%	0%	3%	6%
Wind-up insurance	Policies held by trustees to cover the costs of a triggering event	-	90%	3%	6%
Loans	Loans provided by banks	10%	10%	115%	130%

Continuity strategy

Overview

We must be satisfied that the scheme has an adequate continuity strategy^{CT1}. A continuity strategy is a document that must be prepared by the trustees,^{CT2} setting out how members' interests will be protected after a triggering event. Trustees must send us the continuity strategy as part of the application for authorisation, within three months after it is revised, and whenever we ask for it^{CT3}. It must give details about all matters set out in regulations^{CT4} and include a statement of all levels of administration charges^{CT5}, which may be presented as a separate document.

We do not expect the continuity strategy to be exhaustively detailed. Using the headings below as a guide, it should provide the principles and framework for identifying key actions, their owners and the timings of decisions required to deal with a triggering event. It should be sufficiently comprehensive for trustees to be able to quickly resolve which continuity option to select and be in a position to provide a template for working up the detail of an **implementation strategy** within 28 days of the triggering event occurring or becoming final.

Trustees should think of the continuity strategy as setting out a business case to explain what needs to be done and how, and the likely cost of dealing with a triggering event, while the implementation strategy is a fully costed operational business plan to manage a triggering event once it has occurred.

The continuity strategy should be flexible enough to allow the trustees to tailor their approach in response to a specific triggering event. It should be periodically reviewed and if appropriate revised to adjust to changing circumstances. It should also give sufficient detail to allow calculation of the costs identified for the **costs, assets and liquidity plan** (CALP).

In addition to meeting the requirements set out in the Regulations, trustees should be clear about how they will:

- be adequately prepared in case of a **triggering event** occurring
- continue to operate the scheme during a triggering event period
- decide which continuity option to pursue
- meet the costs of dealing with a triggering event
- communicate with members

CT1 Section 9(3)(f) of the Act

CT2 Section 17(2) of the Act

CT3 Section 17(7) of the Act

CT4 Section 17(5) of the Act and Regulation 15(1) of the Regulations

CT5 Section 17(3) of the Act

Preparing for a triggering event

Assessing the risk of a triggering event

We are more likely to be satisfied about a **continuity strategy** where the trustees have assessed and outlined:

- which triggering events are more likely to occur in relation to the scheme
- which continuity options are available to the trustees in each case
- where more than one continuity option is available, how the trustees will decide which one to follow
- any condition in the scheme's deed and rules that would automatically cause a triggering event and pursuit of one of the continuity options
- the risk and potential impact on members following a triggering event

Planning initial response to a triggering event

We are more likely to be satisfied where the continuity strategy sets out:

- how the trustees will initially respond to a triggering event, including how and when they will first assess risks and impacts
- the process for making decisions, showing where they can be delegated in the absence of a key decision-maker
- the principles for identifying and managing conflicts of interest that may arise following a triggering event
- any role, function, or named person to be involved in producing the implementation strategy

Continuing to operate the scheme during a triggering event period

We would not be able to consider a continuity strategy unless trustees set out in the continuity strategy the matters required by regulations^{PE1}, including how they would:

- manage triggering event notifications in line with requirements and statutory timeframes
- decide which continuity option to pursue, if there is more than one viable continuity option available
- continue to run the scheme while fulfilling duties arising from a triggering event
- meet the costs of operating the scheme during the triggering event
- communicate with members, employers and us
- maintain members' records
- comply with any legal requirements
- meet actuarial requirements
- manage investments and make investment decisions
- deal with any contributions due from employers and members
- ensure administrative services would continue; including a summary of any arrangement or provision under contract for service that would continue during a triggering event and pursuit of any one of the continuity options
- ensure continuity of services, including that any arrangements for appointing key roles and advisers will continue to operate in the event of any roles being left vacant

Trustees should explain the assumptions behind any estimates provided^{PE2}.

PE1 Regulation 15 of the Regulations

PE2 Regulation 15(3)(c) of the Regulations

Choosing a continuity option

The continuity strategy must provide the framework and key steps on how the trustees will decide to pursue (or follow, where required) one of the following continuity options:

- **Continuity option 1 (discharge liabilities and wind up)**
- **Continuity option 2 (resolve triggering event)**
- **Continuity option 3 (close the scheme to new contributions or members)**

We are more likely to be satisfied where the trustees can show they have considered each continuity option available to them for each triggering event, in conjunction with the general requirement to address how the trustees will protect members' interests during a triggering event period.

We expect trustees to consider when it is likely that continuity option 3 will become a viable option and give an estimated timeframe for including the details in an updated strategy. However, we do not expect trustees of a new scheme to plan for continuity option 3 when it first applies for authorisation, unless this is the only continuity option open to the trustees under the scheme rules. Where continuity option 3 is not permitted under the scheme rules, we expect that to be stated in the strategy.

Meeting the costs of dealing with a triggering event

The activities identified in the continuity strategy must be appropriately costed and assumptions clearly stated alongside estimate figures provided^{PE3}. Trustees must explain how they will meet the costs, noting the prohibition on increasing or adding new administration charges during a triggering event period^{PE4}.

PE3 Regulations 15(1)(u) and 15(3)(c) of the Regulations
PE4 Section 45 of the Act

Statement of administration charges

The continuity strategy must set out^{PE5}:

- all levels of charges for each charge structure, for the current scheme year and on an annualised basis
- whether or not any additional, third-party or other types of administration charges apply
- the reasons for imposing any of the charges above

We are more likely to be satisfied where the charge levels provided are consistent with the financial information and assumptions provided for the **financial sustainability** criterion.

PE5 Regulation 16 of the Regulations

Continuity option 1: Discharge liabilities and wind up

We are more likely to be satisfied where the **continuity strategy** shows that trustees have considered each continuity option and addresses how they will protect members' interests during a triggering event period.

Continuity option 1 is for the scheme's liabilities to be discharged and for the scheme to be wound up.

Key issues to consider when pursuing continuity option 1 are set out in the table below. We are more likely to be satisfied that the continuity strategy is adequate if it addresses these points:

Requirement	Matters more likely to satisfy TPR
When choosing continuity option 1, details of how the trustees would ^{C11} :	<ul style="list-style-type: none"> consider the interests of active, deferred and pensioner beneficiaries when identifying suitable options for discharging liabilities assess and decide on the relevant factors when selecting the default discharge option(s)^{C12} carry out due diligence checks before choosing an alternative arrangement secure benefits for members already receiving a periodic income
Details of scheme rules on how continuity option 1 is given effect, including ^{C13} :	<ul style="list-style-type: none"> the time when winding up is formally triggered^{C14} how the value of available assets will be determined how the realisable value of accrued rights to benefits will be quantified during wind-up, noting that the rules for valuing accrued benefits must be applied to all members without variation^{C15} how the amount or rate of periodic income payable during wind-up is to be calculated and adjusted^{C16}

C11 Section 36(2) of the Act and Paragraph 2 of Schedule 6 to the Regulations

C12 By transferring the value of the beneficiaries' accrued rights to benefits under the scheme to one or more alternative arrangements

C13 Paragraph 3 of schedule 6 to the Regulations

C14 Paragraph 4 of schedule 6 to the Regulations

C15 Paragraph 5 of schedule 6 to the Regulations

C16 Paragraph 7 of schedule 6 to the Regulations

Requirement	Matters more likely to satisfy TPR
<p>A plan on how the trustees would implement the following actions, from the winding-up commencement date^{C17}</p>	<ul style="list-style-type: none"> • stopping admission of new members • ceasing receipt of contributions by or on behalf of members • dealing with late payments and transfers into the scheme^{C18} • stopping the payment of benefits, including transfer payments • discharging trustee liability in connection with pension sharing orders and short service refunds^{C19}
<p>Details of how the trustees will^{C10}:</p>	<ul style="list-style-type: none"> • quantify the realisable value of each beneficiary's accrued rights, on an actuarial basis, in accordance with regulations and scheme rules at the following timepoints: <ul style="list-style-type: none"> – Within 28 days of commencing wind-up (initial estimate). – Within six months of the date we notified the trustees that the implementation strategy was approved. – No less than one month before the proposed discharge date (final estimate). – Immediately before discharge, with any final figure reduced to reflect any periodic income paid in winding-up period (final quantification).

C17 Paragraph 6 of Schedule 6 to the Regulations

C18 Regulation 15(1)(q) of the Regulations

C19 Paragraphs 6(5) and (6) of Schedule 6 to the Regulations

C10 Section 36(1)(a) of the Act, Regulation 15(1)(m) and Paragraph 5 of Schedule 6 to the Regulations

Requirement	Matters more likely to satisfy TPR
<p>A plan for how the trustees will provide periodic income to pensioner beneficiaries during the wind-up period^{CI11}</p>	<p>From the wind-up commencement date, until initial quantification of accrued rights has taken place:</p> <ul style="list-style-type: none"> • How the trustees will provide a periodic income to pensioner beneficiaries, in place of any pension they were in receipt of before wind-up commenced (periodic income during this period must fall on the same day and be an equivalent amount to pension received before wind-up started and remain in place until the value of rights has been initially quantified). <p>After initial quantification of accrued rights:</p> <ul style="list-style-type: none"> • How the trustees will provide periodic income to pensioner beneficiaries, following the quantification of accrued rights on an initial estimate basis (after any adjustments), and as revised by subsequent winding-up quantifications. • The principles the trustees will use to prepare beneficiaries for the transition from the periodic income paid during wind-up and the benefits to be secured through one of the permitted discharge options
<p>Data cleansing and member tracing^{CI12}</p>	<ul style="list-style-type: none"> • Details of the trustees' approach to identifying and rectifying any data issues, including how they will conduct tracing member exercises, an estimate of costs and how they will meet them.

CI11 Regulation 15(g) and Paragraph 7 of Schedule 6 to the Regulations

CI12 Regulation 15(1)(l) of the Regulations

Requirement	Matters more likely to satisfy TPR
Dealing with investments ^{CI13}	<ul style="list-style-type: none"> • A summary of the trustees' approach to making decisions and dealing with investments during wind-up, including identification of assets that may be transferred in specie, or will need divestment. • Applicable timescales – for example, when disinvesting, and whether there is a need to manage any specific conditions under the terms of contracts with investment providers. • A summary of costs and how these will be met, including disinvesting; including exit fees, early redemption penalties or costs for advice. • A summary of assumptions used for any estimated figures provided^{CI14}.
Transfers ^{CI15}	<ul style="list-style-type: none"> • How the trustees would securely transfer the value of beneficiaries' accrued rights to benefits to a receiving scheme or alternative discharge option, including: <ul style="list-style-type: none"> – a summary of any checks or approvals before the transfer takes place – a summary of timelines and costs, and how they will meet those costs • How the trustees would securely transfer beneficiaries' personal data, including details of any quality controls and checks to ensure the integrity of data on transfer.

CI13 Regulation 15(1)(p) of the Regulations
 CI14 Regulation 15(2)(a) of the Regulations
 CI15 Regulations 15(1)(h), (i) and (k) of the Regulations

Requirement	Matters more likely to satisfy TPR
<p>Details of communication strategies^{CI16}</p>	<p>How trustees would communicate with employers, beneficiaries and TPR, including:</p> <ul style="list-style-type: none"> • the information to be provided • how the trustees will assess whether their communications are understood • stages at which communications will take place • how trustees will deal with members communicating with them • a timetable for how the trustees will ensure statutory notices^{CI17} are sent to employers and beneficiaries • estimates of the costs of communication and how they will be met • strategies for communicating with us, which should include the types of communications, owners and timescales

CI16 Regulations 15(1)(c) and (d) of the Regulations
 CI17 Schedule 6 to the Regulations

Continuity option 2: Resolving triggering event

We are more likely to be satisfied where the trustees' **continuity strategy** shows that they have considered each continuity option, in conjunction with the general requirement to address how members' interests will be protected during a triggering event period. Continuity option 2 is for the triggering event to be resolved.

Key issues to consider when pursuing Continuity option 2

Key issues to consider when pursuing Continuity option 2 are set out in the table below. We are more likely to be satisfied that the continuity strategy is adequate if it addresses these points:

Requirement	Matters more likely to satisfy TPR
Identifying options for resolving a triggering event ^{CU1}	<ul style="list-style-type: none"> • Whether there are any known potential remedies available for resolving a certain triggering event. • Whether they will seek legal and professional advice and how those costs can be met.
Communications ^{CU2}	<ul style="list-style-type: none"> • Whether they intend to communicate with beneficiaries and employers in considering options for resolving a triggering event. • If so, how and when they will communicate. • How the costs of communication will be met. • How they will comply with the requirement to notify TPR that the triggering event is resolved.
Timescales for resolving the event ^{CU3} and meeting costs ^{CU4}	<ul style="list-style-type: none"> • Clear timescales for resolving the event using any of the mitigation options identified. • Any critical milestones. • How long the trustees can fund an attempt to resolve an event before switching to continuity option 1 (discharge and wind-up) or continuity option 3 (conversion to closed scheme). • A contingency plan to cover the costs of resolving an event, if resolution takes longer than expected. • A summary of the assumptions behind any estimated figures^{CU5}

CU1 Regulations 15(1)(a) and (b) of the Regulations

CU2 Regulations 15(1)(c) and (d) and 30 of the Regulations

CU3 Regulations 15(1)(a) and (b)(iii) of the Regulations

CU4 Regulation 15(1)(t) of the Regulations

CU5 Regulations 15(2) and 15(3)(c) of the Regulations

Continuity option 3: Closing the scheme to new contributions or members

We are more likely to be satisfied where the trustees' **continuity strategy** shows that they have considered each continuity option, in conjunction with the general requirement to address how members' interests will be protected during a triggering event period.

We expect trustees to consider when it is likely that continuity option 3 will become a viable option and give an estimated timeframe for including the details in an updated strategy. However, we do not expect trustees of a new scheme to plan for continuity option 3 when it first applies for authorisation, unless this is the only continuity option open to the trustees under the scheme rules. Where continuity option 3 is not permitted under the scheme rules, we expect that to be stated in the strategy.

Continuity option 3 is for the scheme to run on as a closed arrangement.

Key issues to consider when pursuing continuity option 3

Key issues to consider when pursuing Continuity option 3 are set out in the table below. We are more likely to be satisfied that the continuity strategy is adequate if it addresses these points:

Requirement	Matters more likely to satisfy TPR
Details of scheme rules on how continuity option 3 is given effect ^{CP1}	<ul style="list-style-type: none">• Any provisions in the scheme rules that permit or require the scheme to operate as a closed scheme and any provisions that apply during the period of operation as a closed scheme.• Any conditions or circumstances in which the trustees would operate on a closed scheme basis, as opposed to pursuing one of the other continuity options.• Appreciating how the scheme's design and method of actuarial management may have consequences for closing the scheme to new contributions or members.

CP1 Regulations 15(1)(a) and (b) of the Regulations

Requirement	Matters more likely to satisfy TPR
<p>Details of the strategy for operating a closed scheme and meeting costs^{CP2}</p>	<ul style="list-style-type: none"> • The point in time after which the trustees consider that continuity option 3 may be a viable option, where appropriate relating this to the 3- to 5-year timeframe of the CALP. • How long they would operate the scheme on a closed basis. • The factors which the trustees would take into account to assess whether continuity option 3 could be sustained indefinitely. • How target benefit levels could be sustained. • Whether the scheme’s viability report and certificate would need to be revised, including the costs of this and how they will be met. • How the costs of running the scheme would be met. • How financial reserving requirements would be maintained throughout the proposed lifetime of the closed scheme. • How the trustees would stop accepting new contributions (where applicable), the timescales for doing this and how they would deal with late payments. • How they would stop admitting new members (where applicable) and the timescales for doing this. • A plan for making decisions on the scheme’s investment strategy and dealing with investments. • Whether they would divide the scheme and open a new section. • A summary of the assumptions behind any estimated figures^{CP3}.
<p>Communications^{CP4}</p>	<ul style="list-style-type: none"> • How and when they would consult with beneficiaries and employers on proposals to close the scheme. • How the costs of communication would be met. • How they would maintain communication with TPR.

CP2 Regulations 15(1)(a), (b), (l) and (n) to (t) of the Regulations

CP3 Regulations 15(2) and 15(3)(c) of the Regulations

CP4 Regulations 15(1)(c) and (d) and 31 of the Regulations

Sound scheme design

Introduction

A scheme must have a sound scheme design^{SU1}. The trustees' explanation of this must be set out in the viability report, accompanied by a viability certificate, and should be supported by appropriate advice from suitably qualified professionals, as well as modelling and testing in line with a scheme's complexity. Evidence of sound design will include, but is not limited to, evidence that the viability certificate tests are met and the reasoning and justification that support the conclusions made.

We will decide whether we are satisfied that the design of a CDC scheme is sound by taking account of the following matters^{SU2}:

- the information and documents listed below
- whether the scheme is a CDC scheme
- whether the scheme rules meet the legislative requirements on calculation of benefits
- whether the conclusions reached by the trustees and the scheme actuary as set out in in the viability report are justified
- whether the conclusions reached by the scheme actuary as set out in in the viability certificate are justified
- whether the contents of the viability report are sufficiently comprehensive
- whether the contents of the viability certificate are sufficiently comprehensive
- whether the information provided to us about testing or modelling is sufficiently comprehensive

SU1 Section 9(3)(b) of the Act

SU2 Section 12(2) of the Act and Paragraph 1 of Schedule 2 to the Regulations

Viability report, viability certificate, and connected information and documents

The trustees must prepare a viability report explaining the design of the scheme and the reasons they consider the design to be sound^{SU3}. It must be prepared for an authorisation application and must be reviewed at least once a year and revised if necessary^{SU4}.

The viability report must be submitted to us with the following:

- The scheme actuary's report as required by regulation 10(3)(b) including an explanation of their conclusions on the viability certificate tests, the assumptions used in carrying out these tests and how the use of these assumptions are justified, and the testing or modelling regarding the scheme's design being considered by the trustees.
- The trustees' strategy for investing the assets of the scheme: we expect to see evidence that this has been developed on the advice of an appropriately qualified and experienced professional.
- Extracts of the scheme rules concerning how the rate or amount of benefits provided under the scheme is to be determined. The relevant extracts are those relied on in the explanations in the viability report of the scheme's design and how the trustees are satisfied that the rules meet the relevant legislative requirements. These extracts can be included in the viability report or set out in an accompanying document to make the viability report more readable.

The trustees must also obtain a viability certificate in relation to the initial viability report^{SU5} and at least annually thereafter^{SU6}. While the viability report sets out the trustees' explanation of why they consider the scheme design to be sound, the viability certificate provides the scheme actuary's statement confirming that, in their opinion, the scheme design is sound.

The trustees and the scheme actuary will likely be basing their judgement on the same information: the testing and modelling carried out, the results of the viability certificate tests, the strategy for achieving sufficient investment returns to provide the target benefits, and how the assumptions used are justified, as well as the legal advice on whether the rules of the scheme meet the relevant legislative requirements.

SU3 Section 13(1)(a) of the Act

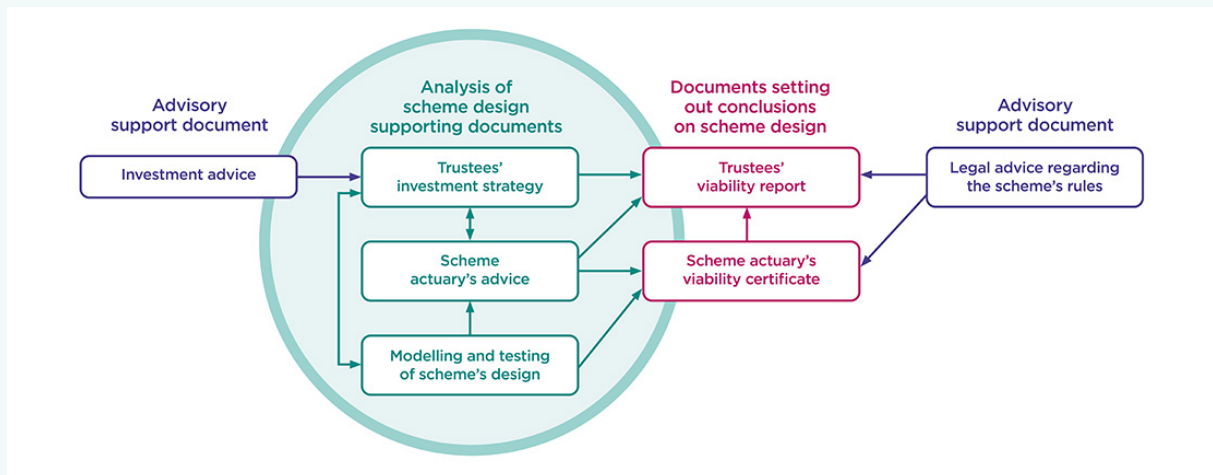
SU4 Sections 13(4)(a) and (b) and 5(a) of the Act

SU5 Section 13(1)(b) of the Act

SU6 Sections 13(4)(c) and (5)(b) of the Act

We expect the above conclusions to be justified through appropriate evidence, including modelling and testing appropriate to the complexity of the scheme or sections. We will consider conclusions to be justified when they are supported by sufficient and comprehensive evidence and advice from qualified and experienced persons. What is comprehensive depends partly on the complexity of the scheme and its design, but the evidence and advice should meet professional standards and should address the issues outlined below in a way that allows the trustees to make clear decisions about their scheme. This will include an understanding of the downside risk and the likelihood of cuts to benefits, as well as the level of variation in benefits.

Figure 2: Scheme design documents



Viability report

A viability report must contain the following^{VII}:

- The effective date of the viability report.
- The name of the scheme that the report has been prepared for.
- The name and contact details of the person to be contacted about the report.
- A statement, signed by the trustees, confirming that in their opinion the design of the scheme is sound and that the viability report has been approved by the trustees.
- A statement, signed by the scheme actuary, confirming they are satisfied that the actuarial matters referenced in the viability report accurately reflect those matters in respect of the scheme (if the scheme actuary cannot provide this statement, the viability report will not be compliant).
- An explanation of the design of the scheme, including:
 - how the scheme is a CDC scheme under s1(2) of the Act
 - how the scheme meets the requirements for a qualifying scheme in section 3 of the Act
 - how the trustees are satisfied that the rules of the scheme meet the requirements in the Act and the Regulations about the calculation and adjustment of scheme benefits
- An explanation of why the trustees consider the design of the scheme to be sound and the evidence on which this is based.

In considering whether the scheme design is sound, the trustees must consider the written advice obtained from the actuary under regulation 10(3)(b). This advice must explain the actuary's conclusions on the matters that they must consider to provide the viability certificate, and the assumptions they used to carry out the gateway tests or live-running tests.

The actuary must explain the assumptions being used, for example expected returns on assets, inflation and mortality, and explain how they are justified. The document must also include an explanation of the testing or modelling being considered by the trustees, including the results of this testing or modelling.

VII Part 2 of Schedule 2 to the Regulations

In explaining the design of the scheme, and whether it is sound, the trustees should show they have taken appropriate investment advice and used it to develop an appropriate investment strategy for the scheme. We expect trustees to explain how their investment strategy supports the scheme's design. This explanation should clearly reference key points from the statement of investment principles, investment strategy and advice. These documents should be submitted to us alongside the viability report as part of the trustee's evidence for why they are satisfied the scheme design is sound.

When providing their advice, we expect the scheme actuary and the individual providing advice supporting the investment strategy to engage with each other.

Both the viability report and the actuarial advice underlying the viability certificate must explain how the scheme rules meet the legislative requirements on benefit calculation and adjustments, with relevant extracts of the trust deed and rules. We therefore expect trustees to obtain legal advice on these matters and share it with the scheme actuary.

Testing and modelling in respect of the scheme

The assumptions used in testing and modelling should be central estimates, except where this is for the purposes of examining sensitivities to changes. Their use, including how they are considered to be central estimates, should be justified in the scheme actuary's advice to the trustees, along with their associated volatilities.

Trustees should understand the key assumptions that underlie any modelling they receive and consider the impact of making alternative assumptions. It will also be important to test changes in assumptions separately from market movements. Advisers should be transparent with their clients about the key assumptions that influence the model output.

Testing and modelling in respect of the scheme continued...

The modelling and testing should examine how the scheme would be affected by changes to market or economic circumstances, and include an examination of the main circumstances in which the scheme's design might no longer be sound. These may include:

- the number of members entering the scheme falls materially in the future
- circumstances in which there might be significant cuts to benefit
- significant numbers of members transferring out their pension

We expect the modelling and testing undertaken and provided to the trustees to include stochastic asset liability modelling (ALM) alongside an explanation of assumptions and inputs. This should provide assurance that outcomes are consistent with what is communicated to members, as well as providing trustees with a measurable way of understanding the variability of outcomes, to support trustee decisions. If modelling is based on an existing known model, then any changes to the underlying model should be explained. We do not expect new ALM every year. New ALM should be undertaken where the trustees consider it necessary, for example, significant changes to the expected returns on the scheme's investments, volatility of the scheme's investments, and longevity assumptions to provide outputs that can be relied on to inform the necessary decisions.

Where schemes allow for member options, trustees should understand the impact of how these are determined on the underlying scheme design. We expect, as part of the testing and modelling at authorisation, that trustees have understood this, for example as part of the modelling of members transferring out or seeking early retirement.

Viability certificate

To provide a viability certificate for a viability report, certifying that in the actuary's opinion the scheme design is sound, the scheme actuary must have regard to a range of matters^{VB1}. The scheme actuary's explanation of their conclusions on these matters must be provided to the trustees in connection with the viability report for which the viability certificate has been produced. The trustees must provide a copy of this advice to us with the viability report.

We expect the scheme actuary to use the template provided in preparing a viability certificate. Where this template is used and completed properly, we will be satisfied that the viability certificate is sufficiently comprehensive. It must contain^{VB2}:

- the effective date of the certificate
- the name and contact details of the scheme actuary
- the name of the scheme in respect of which the viability certificate is given
- a statement, signed by the scheme actuary, confirming that, in the scheme actuary's opinion, the design of the scheme is sound and that when providing the viability certificate, the scheme actuary has had regard to the applicable matters in regulation 11(2)

Scheme rules

The scheme actuary must be satisfied that the scheme rules meet the legislative requirements on benefit calculation and adjustments^{VB3}. As mentioned above, we expect trustees to take legal advice on these matters and make it available to the scheme actuary. But it is for the actuary to decide how they comply with this requirement, and while we do not expect them to obtain their own legal advice, they may if they consider it appropriate.

VB1 Regulation 11(2) of the Regulations

VB1 Part 3 of Schedule 2 to the Regulations

VB3 Regulation 11(2)(a) of the Regulations

Scheme communications

The scheme actuary must have regard to whether, in the actuary's opinion, the trustees have accurately described or explained in the member booklet, the statement of scheme design and the wording used in the most recent benefit statements^{VB4}:

- a. the methods by which the scheme determines the rate or amount of benefits provided under the scheme
- b. estimates of the rate or amount of any future pension benefits payable under the design of the scheme
- c. that the future pension benefits payable under the scheme are subject to annual adjustment in accordance with the rules of the scheme

We expect trustees to communicate this information to members clearly and comprehensibly. The actuary should be satisfied that what the trustees include in the communications set out above (a to c) to members aligns with how the scheme operates and relevant actuarial advice, in a way that is not misleading. In forming their opinion, we expect the scheme actuary to review the generic communications and templates relating to items (a) to (c) above. We do not expect the actuary to approve every individual piece of member communication.

Viability certificate tests at authorisation (the gateway tests)

Regulations set out two 'gateway tests' that the scheme actuary must have regard to at authorisation. We expect both tests to be met for a scheme actuary to be able to provide a viability certificate. An explanation of the scheme actuary's conclusions, of the assumptions used in carrying out the tests and of the testing or modelling used in assessing scheme design must be included in the actuary's advice to the trustees in connection with the viability report for which the certificate is produced.

The first gateway test: Funding for CPI indexation

This test considers whether the estimated projected average annual increase in benefits earned over the first 10 years of the scheme's operation is at least in line with the expected level of increase in the consumer price index (CPI)^{VB5}.

This test must^{VB6} use a central estimate basis.

VB4 Regulation 11(2)(b) of the Regulations

VB5 Regulations 11(2)(c)(i) and (4) of the Regulations

VB6 Regulation 11(4) of the Regulations

The second gateway test: Minimum value of benefits

This test considers whether the value of the benefits expected to be provided to each active member based on the first five years of the scheme's operation is at least equal to the contributions payable to the scheme by the member over that period^{VB7}. This is designed to limit the amount of cross-subsidisation between members. This test does not take account of contributions that will be made by the member's employer in respect of the member, except those made as a result of a salary sacrifice arrangement.

This test should also use a central estimate basis in estimating the expected value of benefits to be provided to each member.

Viability certificate tests thereafter (the live running tests)

Following initial authorisation, the first gateway test no longer applies. This means in live running there is no requirement for the scheme to award increases every year in line with CPI.

Regulations set out two 'live running tests' the scheme actuary must have regard to when providing a viability certificate at any time after the scheme has begun operating and has at least one active member. We expect both tests to be met for a scheme actuary to be able to provide a viability certificate. As with the 'gateway tests' set out above, an explanation of the following must be included in the actuary's advice to the trustees in connection with the viability report for which the certificate is produced:

- The scheme actuary's conclusions.
- The assumptions used in carrying out the tests.
- The testing or modelling being considered by the trustees in assessing scheme design.

A valuation of the scheme must be undertaken annually in order to determine the benefit adjustments necessary to keep the value of liabilities in line with the value of assets. We anticipate that these tests will be conducted following or in conjunction with the valuation and will therefore use relevant information from that year's valuation.

In addition, we expect trustees and the scheme actuary to monitor any trends indicated by the live running tests and consider these trends, as well as the results of that year's tests, in making decisions regarding benefits and the design of the scheme.

VB7 Regulations 11(2)(c)(ii) and (6) of the Regulations

The first live running test: Minimum value of benefits

This test considers whether the value of the benefits expected to be provided to each active member in respect of the five-year period beginning with the effective date of the viability certificate is at least equal to the contributions payable to the scheme by the member over that period^{VB8}. This is designed to limit the amount of cross-subsidisation between members. This test does not take account of contributions that will be made by the member's employer in respect of the member, except those made as a result of a salary sacrifice arrangement.

This test should also use a central estimate basis in estimating the expected value of benefits to be provided to each member.

The second live running test: Excessive cross-subsidy

This test considers the risk of excessive cross-subsidy and is applied as part of the scheme actuary's annual recertification of viability. This test highlights large differences between the value of benefits that are expected to be earned and the contributions being paid to the scheme that could be perceived as unfair to either new joiners or long-time members. Where it is failed, the cross-subsidy has become too large over a sustained period.

In relation to each actuarial valuation, the scheme actuary must calculate the value of benefits expected to be earned in the year following the effective date of that valuation, and express it as a percentage of pensionable salary^{VB9}. This is over the active member population as a whole, not on an individual-member basis.

To apply the test, they must then compare the average of the results of this calculation over the five year test period with the rate of contributions paid to the scheme by members and employers. If the average is less than half or more than twice this rate, the test is failed.

Where the scheme has been operating for less than five years, this test must be conducted by reference to the average of the results available.

VB8 Regulations 11(2)(d)(i) and (7) of the Regulations
VB9 Regulations 11(2)(d)(ii) and (9) of the Regulations

Investment

Members' retirement outcomes in the CDC environment will be materially influenced by the performance of the investment strategy, and so it is an important part of a scheme's design.

Trustees will play a critical role in shaping, implementing and then monitoring this investment strategy, and while expert advisers can help them with their responsibilities, ultimate fiduciary responsibility for the design, ongoing suitability and performance of the investment strategy sits firmly on the shoulders of the trustee board.

We therefore place significant importance on the need for trustees to show sufficient focus and expertise, and a deep understanding of all material aspects of the investment proposition, both at the time their arrangement is authorised and during subsequent supervision.

Through our supervision of the scheme, we will monitor the trustees' activity and assess their stewardship of the investment strategy, their advisers and suppliers. Where we identify activity, omissions or behaviour that fall short of the standards we require, in line with the criteria for fitness and propriety and systems and processes (in particular scheme governance), we will hold the trustees accountable.

Where the scheme rules set prescriptions with regard to the investment strategy set by the trustees we will expect:

- a. An explanation of how the prescriptions fit within current UK law.
- b. Justification for the prescriptions and how they support the scheme's design.
- c. A statement that the trustees are comfortable with the prescriptions.
- d. That there is provision for reviewing and amending the scheme rules relating to investment, and at what intervals or events this is triggered.
- e. An explanation of who can amend the relevant scheme rules.
- f. That trustees are required to agree the changes for them to be enacted.
- g. That trustees understand the circumstances the scheme may encounter which require changes, and that there are processes in place to bring about the necessary changes in a timely manner.
- h. That there is provision for the trustees to change the investment strategy if necessary during a triggering event period.

At authorisation, we expect the trustees to show that they:

- take advice from appropriate advisers
- pursue a strategy consistent with their defined investment philosophy
- have the necessary expertise to challenge the advice they receive
- thoroughly understand the investment strategy from a risk and return perspective
- have clarity in the roles and responsibilities for the implementation of investment strategy
- monitor the ongoing suitability, relevance and appropriateness of the investments and associated benchmarks
- monitor material changes in process, policy, or strategy that affect the investment proposition
- have access to relevant data that enables a prompt analysis of their investment strategy
- have established an effective investment governance framework

As part of our ongoing assessment of the trustees' oversight of the investment strategy and the framework in which the investment arrangements operate, we will assess the quality of the investment-related documentation presented by the trustees. These documents should contain enough detail to give us a thorough understanding of the investment strategy and the roles and responsibilities of the individuals involved in implementing it.

More specifically, we expect these documents to enable us to clearly understand key elements of the strategy, including:

- the trustees' investment philosophy and the style of investment management being pursued
- the investment objectives, benchmarks and estimated target returns for the strategy
- the range of permissible asset classes, markets, and instruments together with the process for adding new or additional investments
- the asset allocation framework detailing the parameters for tactical and strategic asset allocation discretion
- the size and nature of the risk budget or the risk factors permitted under the agreed investment arrangements
- the trustees' policy on ESG and climate change

Similarly, in the context of the ongoing monitoring of the performance of the investments, we expect trustees to show that they:

- have maintained specific accountability for each element of the investment strategy and that any conflicts of interest are identified, understood, and addressed
- actively monitor the absolute, and relative performance of their investments against appropriate benchmarks and peers
- receive sufficiently detailed information regarding the attribution of performance in the portfolio to fully understand all the components of the investment performance of their strategy
- employ a suitable range of risk metrics to fully understand the nature and magnitude of risk being deployed across their investments
- understand the resilience of their investment strategy to a range of economic and market scenarios and stresses
- can assess whether those responsible for strategic and tactical asset allocation decisions, portfolio construction and manager selection decisions are adding or detracting value for the trustees
- are immediately aware of material changes to relevant benchmarks, objectives, risk budgets, investment process or philosophy and the associated implications for the strategy
- fully understand and appropriately manage the liquidity profile of their underlying investments and the potential implications for members' cashflow requirements
- are immediately aware of any material breaches of agreed investment guidelines

Regarding ongoing investment governance, any significant change to the investment strategy must be reported to us as a significant event and we also expect any material breach of the investment management arrangements to be reported to us^{IS1}. The statement of investment principles must be updated without delay following any significant changes to the investment policy^{IS2}.

IS1 Regulations 23(1)(c) and (k) of the Regulations

IS2 Regulation 2(1)(b) of the Occupational Pension Schemes (Investment) Regulations 2005

Supervision and reporting

Significant events

Significant events are circumstances arising during the operation of a CDC scheme that must be reported to us so we can assess whether we remain satisfied that the scheme meets the authorisation criteria.

The duty to notify us falls on most parties involved in supporting the management of the scheme. These include most of those required to be assessed for fitness and propriety, but also advisers and administrators^{SI1}.

Notifications must be made as soon as reasonably practicable, which normally means within five working days of becoming aware of the significant event (where this is different, this is noted in the events below).

Those required to notify significant events should consider reporting even if they are unsure about whether to notify.

Schemes should have systems and processes to monitor and address significant events, and to help those with reporting duties to fulfil their obligations.

We will use the information you provide to assess whether we remain satisfied the scheme continues to meet the authorisation criteria. Where we are not satisfied with the scheme's response to the event, and therefore we are not satisfied that the scheme continues to meet the criteria, we may take further action, including de-authorising the scheme.

Individual significant events

We expect certain significant events to be reported as follows.

A proposal to change or add to the persons involved in the scheme who fall within the fit and proper assessment^{SI2}

We expect all changes to persons who are required^{SI3} to be assessed as fit and proper to be reported to us before the individual commences their role. The exception is if an individual is providing temporary cover for up to six months: in these circumstances we do not expect a report to be made and will not complete an assessment.

SI1 Section 28(2) of the Act

SI2 Regulation 23(1)(a) of the Regulations

SI3 Section 11(2) of the Act

Individual significant events continued...

A significant change to the scheme's investment strategy^{S14}

We expect changes to the character of the strategy to be reported as a significant event. These could include changes to:

- the trustees' investment philosophy and the style of investment management being pursued
- the investment objectives, benchmarks and estimated target returns for the strategy
- the range of permissible asset classes, markets, and instruments together with the process for adding new or additional investments
- the asset allocation framework detailing the parameters for tactical and strategic asset allocation discretion
- the size and nature of the risk budget or the risk factors permitted under the agreed investment arrangements

A proposal to change the design of the scheme, including, but not limited to, a proposal to close the scheme and a proposal to add a section to a scheme that was previously unsectionalised^{S15}

In addition to a proposal to close the scheme to new accruals or new members, this event also includes proposals to narrow the eligible membership. Changes to the prescribed characteristics of the scheme can only be achieved through the closure of the existing scheme and the addition of a new section to provide benefits with the new prescribed characteristics.

An event which, in the opinion of a person with the duty to report, undermines, or is likely to undermine, the soundness of the scheme design^{S16}

This could include events outside the running of the scheme such as an external economic or market event, or a decision taken by the employer. We expect most events of this type to have been identified as part of the modelling and testing supporting the trustee's considerations of whether the scheme's design is sound or in the monitoring of investments.

Significant events relating to the ability of the scheme to meet its running costs or maintain the required reserves in appropriate proportions^{S17}

This should be reported to us within two working days of the event occurring, or the person mentioned in those events forming their opinion.

S14 Regulation 23(1)(c) of the Regulations
S15 Regulation 23(1)(d) of the Regulations
S16 Regulation 23(1)(g) of the Regulations
S17 Regulations 23(1)(h) and (i) of the Regulations

Individual significant events continued...

An event that has resulted or, in the opinion of the person with the duty to report, is likely to result in the scheme being unable to meet the specified requirements in relation to its financing^{S18}

This includes where the assets being held to meet the **financial sustainability** requirements are not of the classes or in the proportions set out in this **code**, are not available to be used when the relevant costs fall due, and where the trustees do not have first call on the assets.

A failure of the systems and processes used in running the scheme, which has a significant adverse effect on the security or quality of data or on service delivery^{S19}

This includes an adverse effect on security or quality of data or on service delivery brought about by a series of events or failures, as well as single significant events. This may include errors in the actuarial valuation. Where the key objectives and tasks in the function holder governance statements are not met, and this failure increases the key risks identified, we expect this to be reported as a significant event. This will include where investment management arrangements have not been followed.

In general, notifications of this event should look at divergence from the objectives set for the scheme and tolerance of risk as set out in the risk register. This is important in considering the balance of probabilities that the failure has, or will have, an adverse effect that a scheme's existing systems and processes cannot rectify without impacting on the security or quality of data, or on service delivery.

Where the failure has had, or will have, an adverse effect on the scheme's data security we expect you to report to us when a report is made to the Information Commissioner.

A failure of the systems and processes for communicating with relevant persons, which has a significant adverse effect on communication with relevant persons^{S110}

This includes an adverse effect on communications with relevant persons brought about by a series of events or failures as well as single significant events. Notifications of this event should look at the balance of probabilities that the failure has, or will have, an adverse effect that a scheme's existing systems and processes cannot rectify without impacting on communications with relevant persons.

S18 Regulation 23(1)(j) of the Regulations

S19 Regulation 23(1)(k) of the Regulations

S110 Regulation 23(1)(l) of the Regulations

Individual significant events continued...

A proposal to make a significant change to the systems and process used in running the scheme (including the systems and processes for communicating with relevant persons)^{SI11}

This is not intended to capture the general upkeep or maintenance of systems. We expect notifications of proposals such as:

- changing the scheme's administrator
- changing the system being used to run the scheme
- changing the persons responsible for delivering key services to the scheme such as investment advisers or managers, or the scheme payroll provider if different from the administrator

There is an investigation of the scheme, or a person involved in a scheme, by a regulator or other competent authority including those outside the United Kingdom^{SI12}

We consider notification of this event as soon as reasonably practicable to mean notifying us immediately after becoming aware of the investigation. A competent authority is a person or organisation with powers to carry out an investigation and take regulatory action. This includes the FCA, PRA and investigative agencies such as the Police and SFO.

SI11 Regulation 23(1)(m) of the Regulations

SI12 Regulation 23(1)(n) of the Regulations

Implementation strategy following a triggering event

If a triggering event occurs, the trustees must produce an implementation strategy^{IP1}. This is a plan for how the trustees will implement their chosen continuity option and should be a more detailed version of the higher-level plan in the **continuity strategy**.

The implementation strategy must be submitted to us for approval within 28 days of the triggering event occurring or becoming final^{IP2}.

Triggering events

Triggering events are events that may indicate that the scheme cannot continue to operate^{IP3}. We must be notified that a triggering event has occurred unless we instigated it (events 1-3)^{IP4}.

We expect the trustees to have robust procedures for monitoring risks to the scheme, and to be able to identify a triggering event when it occurs. Consequently, where the trustees decide that the scheme is at risk of failure and it is necessary to pursue one of the continuity options, the continuity strategy should in most cases have already identified the risk leading to the failure. In many cases, an associated significant event should have already been reported to us, and the trustees should be in dialogue with us at the time of the triggering event notification.

Notifications to TPR about triggering events

If a scheme experiences a triggering event, the trustees, or the employers or former employers must notify us within seven days after the event occurs or, in some cases, after they become aware that it has occurred^{IP5}. If you are unsure whether a triggering event has occurred, you should seek professional advice.

Some triggering events must be reported when a decision has been made^{IP6}. Only binding decisions should be reported, not plans or proposals. A decision can be taken outside a formal meeting and our expectation is that where clear steps have been taken regarding an event, without a formal minuted decision, a notification will need to be made. The table on page 95 sets out the triggering events that you need to notify us of.

IP1	Section 39(1) of the Act
IP2	Regulation 26 of the Regulations
IP3	Section 31 of the Act
IP4	Section 33 of the Act
IP5	Regulations 25(2) and (3) of the Regulations
IP6	Section 31(4) of the Act, items 6 and 8

Triggering event	Date event occurs
4 An employer or relevant former employer has an insolvency event	The date of the insolvency event
5 An employer or relevant former employer becomes unlikely to continue as a going concern	The date the employer or relevant former employer becomes aware it is unlikely to continue as a going concern
6 A person decides that the scheme should be wound up (where the person making the decision has the power to do so under the scheme rules)	The date of the decision
7 An event occurs which is required or permitted by the scheme rules to result in the scheme winding up	The date on which the event occurs
8 A person decides that the scheme should become a closed scheme (where the person making the decision has the power to do so under the scheme rules)	The date of the decision
9 An event occurs which is required or permitted by the scheme rules to result in the scheme becoming a closed scheme	The date on which the event occurs

Notification duties attached to the above triggering events fall into two categories:

- **Category 1:** persons more closely involved with the event must notify us within seven days starting with the date of the event itself.
- **Category 2:** other persons must notify us within seven days starting with the date they first become aware of the event.

Person with duty to report to TPR	Category 1: within 7 days of date of triggering event	Category 2: within 7 days of becoming aware of triggering event
Employer/relevant former employer	<ul style="list-style-type: none"> • Items 4 and 5 • Items 6 and 8 (when they are the decision-maker) 	<ul style="list-style-type: none"> • Items 6 and 8 (when they are not the decision-maker) • Items 7 and 9
Trustees	<ul style="list-style-type: none"> • Items 6 and 8 (when they are the decision-maker) • Items 7 and 9 	<ul style="list-style-type: none"> • Items 4 and 5 • Items 6 and 8 (when they are not the decision-maker)
Other decision-maker	<ul style="list-style-type: none"> • Items 6 and 8 (when they are the decision-maker) 	

A triggering event will also arise where there is a warning notice about a decision to withdraw a scheme's authorisation (or in some cases a determination about such a decision), or a notice from us that a scheme is not authorised. These do not have to be notified to us.

Other notifications about triggering events

Trustees must also notify an employer or former employer within 14 days of the event (or of the trustees becoming aware of it):

- that the triggering event has occurred, unless the triggering event related to or was instigated by the employer or former employer
- of the date on which the trustees intend to or did submit the implementation strategy to us
- that the implementation strategy will be made available to the employer or former employer within seven days after it has been approved by us^{IP7}

An employer, former employer or other person to whom a triggering event relates or by whom it was instigated must notify the trustee of the triggering event within two days of it taking place^{IP8}.

Content of an implementation strategy

The implementation strategy must include the information in regulation 28 and must^{IP9}:

- show that the trustees have carefully considered and applied the requirements of the Act and Regulations, as well as the provisions of the code
- contain an analysis of the risks to members' benefits, and provide adequate mitigations
- set out an appropriate and realistic timescale for dealing with the triggering event in relation to the chosen continuity option
- explain why the chosen continuity option is being pursued
- where the trustees have decided to pursue continuity option 2 (resolving the triggering event), set out in detail the conditions and timescales that may lead the trustees to instead pursue continuity option 1 (discharge of liabilities and winding up) or continuity option 3 (conversion to closed scheme).
- where the trustees have decided to pursue continuity option 1 (discharge of liabilities and winding up), include details of the receiving scheme and any other retirement vehicle the trustees intend to transfer members to
- provide details of the plan for calling on the financial reserves to cover the costs of complying with the relevant continuity option, including actuarial, legal and other service provider requirements
- wherever the implementation strategy includes cost estimates, include a statement of the factors that may cause these estimates to vary, and by how much

IP7 Sections 33(3) and (4) of the Act and Regulation 25 of the Regulations

IP8 Section 33(9) of the Act and Regulation 25(2)(c) and (3)(c)(ii) of the Regulations

IP9 Regulation 28(2)(c) of the Regulations

Charges

The implementation strategy must set out a statement of administration charges calculated using the method in regulation 27, and include:

- the lower of the administration charges for the year before and the year of the triggering event, and not impose any additional administrative charges beyond those allowed for in the Regulations
- the reason for imposing any additional or third-party charges

Reporting

During a triggering event period, the trustees must submit periodic reports to us, with the first report due within 14 days of notification that their implementation strategy has been approved^{IP10}.

We will notify the trustees of the timing for the second and subsequent reports^{IP11}, and may ask for more information. When trustees report on the implementation of the communication plan, we will assess how they are monitoring how well members understand their options.

Under continuity option 2, when trustees consider that the triggering event has been resolved, they must notify us with an explanation within 14 days^{IP12}.

Under continuity option 3, trustees will need to inform us within 28 days when they consider the preparations for closing the scheme are complete^{IP13}.

IP10 Section 43(1) of the Act and Regulation 32(1) of the Regulations

IP11 Section 43(3) of the Act

IP12 Section 37(2) of the Act and Regulation 30 of the Regulations

IP13 Section 38(2) of the Act and Regulation 31 of the Regulations

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Free online learning for trustees

<https://education.thepensionsregulator.gov.uk/>

Pensions education portal



Code of practice: **Authorisation and supervision of collective defined contribution schemes**

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