

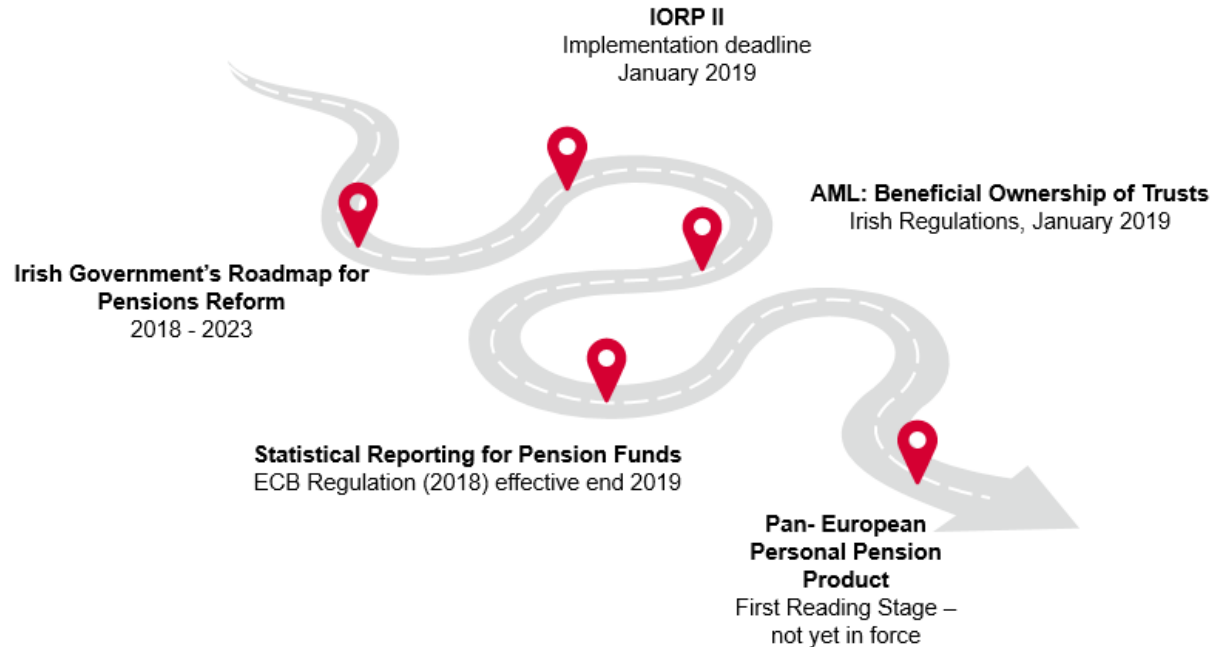
# Regulatory Update

Ian Devlin  
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30 May 2019

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# Agenda



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# A Roadmap for Pensions Reform 2018 - 2023

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EQUITY

ADEQUACY

SUSTAINABILITY

**Strand 1**

State Pension Reform

- ✓ Introduce Total Contributions Approach (TCA) to the State pension contributory (2020)
- ✓ Benefits received will more accurately reflect contributions made
- ✓ State pension contributory formally benchmarked at 34% of average earnings
- ✓ Certainty regarding future State pension income and pension age
- ✓ Providing options to defer State pension and increase ultimate payment

**Strand 2**

Auto Enrolment for Employees without Retirement Savings



**Strand 3**

Better Member Outcomes through Improved Pension Scheme Governance and Regulation



**Strand 4**

Measures to Support Defined Benefit Schemes in the Challenges they face



**Strand 5**

Further Reform of Public Service Pensions to Improve Sustainability and the Pensions Promise



**Strand 6**

Measures to Support Individual's Choice in the Retirement Decision and Fuller Working Lives



Source: Department of Employment Affairs & Social Protection, Infographic - A Roadmap for Pensions Reform 2018 - 2023, [www.welfare.ie](http://www.welfare.ie)

# Roadmap for Pensions Reform – Private Sector Policy Aims

**Improved Governance  
Standards**  
IORP II

**Scheme Consolidation**  
IORP II + Master Trust  
Regulation??

**Increasing Coverage**  
Auto Enrolment

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# IORP II - Overview

- Builds on IORP I – 2003
- Not Solvency II for pension schemes but
  - regulated financial services sector concepts extended to pension sector
- Derogation option for small schemes but
  - 15+ some investment / governance aspects apply
  - “size, nature, scale and complexity”
  - “contrary to the policy of enhancing standards for consumers”



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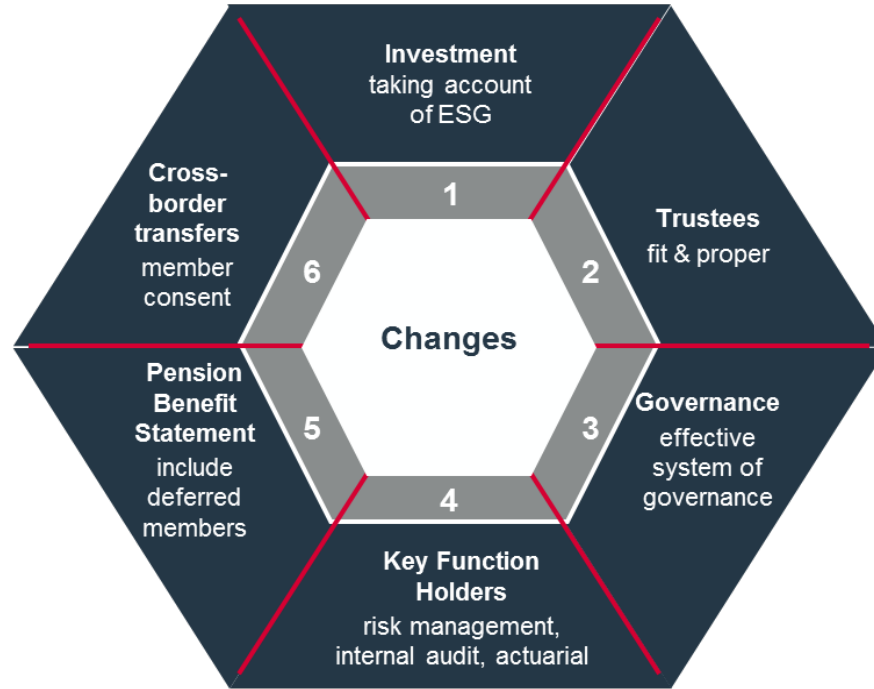
# IORP II – Timing?

- Implementation deadline 13 January 2019
- Regulations promised during Q3 2018 then Q1 2019 now “as early as possible”
- Pensions Authority Codes of Practice to follow – grace period?
- Judicial Review proceedings
  - challenging method of transposition
  - seeking order requiring RIA
- More delay expected...
- EU infringement proceedings



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# IORP II – Key Changes to Current Regime



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# IORP II – Investment

- *“Prudent person”* rule
- Invest in best *“long-term”* interests of members
- Consider impact of investment decisions on ESG factors
- SIPP shall be publicly available and cover ESG



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# IORP II – Trustees

- Fit: qualifications, knowledge and experience are “collectively” adequate
- Proper: good repute and integrity (no prior bankruptcy)
- Establish and publicly disclose remuneration policy
- Pensions Authority expects trustees to
  - document how they meet fit and proper standards
  - meet 4 times per year
  - prepare a board manual documenting roles, responsibilities, policies and procedures
  - minutes to record substance of discussions



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# IORP II – Governance

- Effective system of governance for sound and prudent management
  - Triennial ORA and written policies
    - Risk management
    - Internal audit
    - Actuarial (where relevant)
    - Outsourced activities
    - SIPP
    - Conflicts of interests
    - Scheme administration
- 3 year review



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# IORP II – Governance

- Pensions Authority
  - Forward-looking risk based approach to supervision
  - Codes of Practice to explain what's expected
  - Focusing on “overall governance culture within the scheme” and “processes that trustees have put in place”
  - Evidence and documentation that processes followed

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# IORP II – Key Function Holders

Risk management, internal audit and actuarial function (where relevant)	Fit and proper requirements
Pensions Authority must be notified before any KF outsourced	Trustees must enter into SLAs where KF outsourced



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# IORP II – Likely Impact

## 1. Professionalisation of Trusteeship

- Increased compliance burden
- Pro-active Pensions Authority
- Demonstrate and document control in running pension scheme
  - Lay trustees may not be able/willing

- **Employers exposed to**
  - More legal risk as trustee indemnifier
  - Reputational risk

- **Solution?**
  - Professional trustee – fully /partially outsource
  - Member connection?

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# IORP II – Likely Impact

## 2. Scheme Consolidation

- IORP II increases compliance costs
- Solution?
  - Consolidate existing schemes
  - Consider Master Trust
- How?
  - Wind up and bulk transfer
- Issues?
  - Disclosure of Information Regulations
  - Bulk Transfer Regulations
  - Master Trust Regulations?

# AML Changes

- EU (AML: Beneficial Ownership of Trusts) Regulations 2019
  - Internal register of “beneficial owners”
  - Central Register – March 2020
  - Public access if “legitimate interest”
  - Who are “beneficial owners” ?
  - What are “reasonable steps” ?

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# Around the bend – European initiatives

- ECB/EIOPA – Statistical Reporting
  - Enhanced statistics to support stability of the financial system
  - Trustees to report data on assets, liabilities and membership numbers
  - Quarterly (Dec 2019) and annual reporting (May 2020) for large schemes
  - Annual reporting for smaller schemes (May 2020)

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# Around the bend – European initiatives

- Pan-European Personal Pension (PEPP)
  - European Commission proposal (2017)
    - standard product transportable cross-border
    - contract-based, registered with EIOPA
  - Next steps
    - EU legislative stages - 2020?
    - encourage harmonised tax treatment

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# Thank you



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