

**Code of practice:
Trustee knowledge and understanding (TKU)**

Consultation Document

A response to

The Pensions Regulator

by the

UK Society of Investment Professionals

About UKSIP

The UK Society of Investment Professionals (UKSIP) is the main professional body for investment management practitioners in the UK, with 5000 members who work or have an interest in the UK financial services industry. Its main aim is to foster and maintain high standards of professional ability and practice in investment analysis, portfolio management and related disciplines. Most members hold either the Associate of the Society of Investment Professionals (ASIP), the Chartered Financial Analyst (CFA) or recently introduced Investment Management Certificate (IMC) designation. The ASIP designation is held primarily by those who successfully completed UKSIP's former Associate examination, which was similar to the CFA. UKSIP is the UK-based member society of the CFA Institute, the premier worldwide investment professional body and the organisation that develops and administers the CFA[®] Program.

Most UKSIP members also belong to the CFA Institute and reaffirm annually their adherence to its Standards of Professional conduct. A copy of the Code of Ethics and Standards of Professional Conduct is appended to this response and a copy of the Standards of Practice Handbook, first published in 1982, is enclosed. In common with UKSIP, the CFA Institute is committed to providing its members with a wide range of professional development opportunities to ensure that the knowledge of investment professionals remains relevant and up to date. All members are encouraged to undertake ongoing post qualification professional development.

UKSIP is the awarding body for the IMC, the benchmark qualification for those working in investment management in the UK. The examination is accredited by the Qualifications and Curriculum Authority (QCA) and is designated an 'appropriate examination' by the Financial Services Skills Council (FSSC) for the purposes of the Financial Services Authority's training and competence requirements. The IMC is held by over 15,000 investment professionals.

UKSIP also runs an extensive programme of professional development events, either on its own or in collaboration with other bodies including the Pensions Management Institute, the National Association of Pension Funds and the Actuarial Profession.

UKSIP believes that the IMC and its professional development programme could well go a long way to meeting the knowledge and understanding requirements of trustees, particularly those involved on investment sub-committees, who require sufficient knowledge and confidence to be able to question their investment advisers effectively.

Response to questions

Chapter 2: The policy approach

Q1 *Do you have any comments to make on the policy approach outlined above?*

UKSIP supports the policy approach outlined above. While setting a mandatory examination requirement for trustees may be going too far, UKSIP agrees that qualifications and professional development programmes should be encouraged and made available. Whilst, UKSIP supports the concept of a single dedicated examination covering Trustee Knowledge and Understanding and Conversance, it does feel that one examination may well be – by necessity - too general in content. For that reason UKSIP recommends a modular approach for the knowledge build of trustees, drawing on the particular expertise of professional bodies that already have a solid track record of achievement. For instance, the Pensions Management Institute would be able to cover pensions legislation and related issues whilst the Actuarial Professional could be utilised with regard to funding. UKSIP offers the IMC - a relevant investment qualification - of which Unit 2 – Investment

Practice – already tests much of the knowledge base that trustees need to demonstrate.

Whilst all trustees share identical legal responsibilities, it is important to differentiate between professional / independent trustees, between those appointed by the employer and between some member nominated ones. In the case of professional trustees, success at a relevant examination would evidence a level of competence. Investment committee chairmen and members should also be strongly encouraged to demonstrate such competence. In the above context, UKSIP would recommend the IMC as a relevant qualification. As noted later, its syllabus is attached. If professional trustees held such a qualification, this would be likely to provide a greater level of assurance to those offering liability insurance.

In addition to the qualification requirements, the membership of professional bodies such as UKSIP amongst trustee board members – which provide opportunities for learning and networking with other trustees or investment professionals within a strong ethical framework - should be strongly encouraged. This would be helpful to ensure trustees can understand and evaluate new developments relating to pension funds, investment funding, and so forth.

The development of new investment techniques and instruments pose a challenge to trustees, even those who may feel well qualified. For example, pension fund management in the UK has shifted from balanced to specialist mandates and is now moving to “new balanced” mandates. It is crucial that trustees maintain their expertise in those circumstances and the implications of such changes and how to evaluate them is best understood in an environment of debate and discussion that organisations such as UKSIP provide. Such expertise should exist within the trustee board as a whole; not every individual trustee need have it.

As a strong supporter of continuing professional development for investment professionals, UKSIP maintains an active programme of full or half day seminars and discussion lunches and evenings covering topical issues for investors (please see UKSIP’s programme for 2005 attached). For most members, i.e. those who are also members of the CFA Institute, professional development activities are actively tracked. UKSIP plans to extend this facility to local classes of its membership, such as IMC members.

In some respects a trustee’s role must, inevitably, move closer to that of an investment professional, as trustees have responsibility for the effective management of scheme assets in an increasingly complex environment. For example, trustees will need to assess the strength of the employer’s covenant to the pension fund, particularly where there is a need to cope with volatile contributions. This is because a pension fund in deficit is an unsecured creditor of the employer, with a long-term repayment or funding plan in place; the parallels between trustees and investment professionals are clear.

UKSIP has noted that the Pensions Regulator is working with examination providers, the Qualifications and Curriculum Authority (QCA) and the Financial Services Skills Council to secure an accredited examination for those individuals who wish to obtain a qualification. UKSIP recommends that the Regulator encourage the development of this examination by combining the expertise of the different examining bodies in each of the areas making up the scope of knowledge. These are:

- The law relating to trusts and pensions
- Investments including DB, DC, AVCs, strategic asset allocation, investment choices and fund management
- Funding (DB and DC)

This will help to ensure that each of these areas is covered by the examining body with the greatest expertise. UKSIP, for example, has expertise in the investments area whereas other bodies such as the Pensions Management Institute have greater expertise in other areas such as the law relating to trusts and pensions and the Actuarial Profession has expertise in issues related to funding.

UKSIP also believes that involving these examining bodies will help to develop the future learning activities in each area that could be of benefit to trustees.

UKSIP's recommendations:

1. In addition to proposing a single qualification covering the TUK, the Pensions Regulator should give clear recognition to accredited examinations covering individual parts of the TUK requirements. Investment is covered by the IMC, the CFA and by other examinations.
2. Also, if a new single qualification is developed, a modular approach should be adopted with each module being developed by a professional body or bodies that have expertise in the specific knowledge area.
3. Encourage membership of professional bodies and societies – particularly those with strong ethical standards - as this is beneficial for trustees' continuing education and development.
4. Give credit for participating in relevant continuing professional development programmes, such as those events offered by UKSIP.

Q2 *Do you have any comments about the process described above?*

UKSIP supports the process described.

Chapter 3: The draft Code of Practice on TKU

Q3 *This section summarises the statutory provisions. Would it be helpful to the reader of this Code to have the provisions reproduced in the Code, or would a web link be sufficient?*

UKSIP has no strong views. It would be useful to have statutory provisions reproduced in the Code.

Q4 *Do you have a view as to how the disclosures described in paragraph 30 may take place?*

Gaining appropriate qualifications would be the most obvious way for trustees to demonstrate knowledge and understanding to members. UKSIP believes that a list of qualifications appropriate for each of the nine principles within the scope of the body of knowledge would be helpful to trustees and sponsors. This list should be provided by the Pensions Regulator or Financial Services Skills Council.

The annual accounts to members and other communications such as

newsletters and websites should include comment by the Chairman of trustees on the learning activities undertaken by board members. Providing a detailed listing of all training activities is unlikely to be helpful but references to success at examinations could provide reassurance. UKSIP would recommend maintenance of a record of learning activities that auditors or independent parties can verify.

Q5 *Do you have any other comments to make on the trustee knowledge and understanding requirements?*

UKSIP believes that the requirements set out in the scope guidance are appropriate and provide comprehensive coverage of areas that are relevant for trustees. The Society believes that Unit 2 of the IMC examination could be most appropriate for trustees with specific investment responsibilities. This is a widely recognised two hour examination with 94 questions, all related to investment and regulated under the QCA regime. Success at this Unit would ensure that trustees had the knowledge to question their investment advisers by overcoming any hesitancy they might have due to a lack of familiarity with fundamental concepts and terminology. The IMC syllabus is attached and copies of IMC brochures are enclosed.

To remain effective, trustees need to maintain and develop their levels of investment knowledge. UKSIP's own professional development programme would offer trustees an appropriate means for maintaining and developing their investment knowledge and understanding.

UKSIP recently established the IMC membership category for those who have passed the IMC examination. It is also actively promoting the IMC designation so that it has heightened recognition within the investment community. The knowledge of trustees holding this designation would thus be recognised.

Q6 *Is this explanation of the requirement to be conversant with scheme documents satisfactory?*

UKSIP has no comment to make, believing that the explanation is satisfactory.

Q7 *Do you have any additional comments on the requirement to be conversant with scheme documents?*

UKSIP has no comment to make.

Q8 *Do you have any other comments on the draft Code of practice?*

UKSIP believes that the Code should specifically state that it is good practice for the scheme sponsor to accept responsibility for assisting and encouraging knowledge and understanding.

Chapter 4: The regulatory impact assessment

Q9 *Are there other costs and benefits of the Code which should be taken into account?*

UKSIP agrees that the benefits will outweigh the costs. Enhancing trustee knowledge and understanding is important as a first step to enable trustees to manage pension schemes with some independence. However, the Regulatory Impact Assessment does not specify whether the scheme or the sponsor should pick up the costs. UKSIP is of the view that the costs should be a charged on the sponsor and not the scheme.

Q10 *Do you agree with the outcome of this regulatory impact assessment?*

Agreed

Q11 *Do you have any other comments on the regulatory impact assessment?*

UKSIP has no comment to make.

10 June 2005