

# The Institute of Chartered Accountants in England and Wales (ICAEW) consultation on the Master Trust Supplement to ICAEW AAF 02/07



## NEST's response

We welcome the opportunity to respond to the proposed changes to the *Master Trust Supplement to ICAEW AAF 02/07*. As you will see from our detailed responses to the consultation questions, we are supportive of the changes.

In our opinion, the revised control objective structure is broadly appropriate and, for as long as the control objectives remain aligned to The Pension Regulator's (TPR) Code of Practice 13, all master trust providers should have adequate controls to meet the framework without significant additional work.

We recognised that TPR's guidance on Code of Practice 13 is intended to replace the additional information present in the original supplement as 'rationale/risk'. However, we would appreciate some additional guidance from the ICAEW on the level at which controls should be documented. This will enable potential customers to compare reports from different providers and to draw conclusions on the governance arrangements of those providers.

Our responses to the consultation questions are as follows:

### 1. Do you agree that the realignment of control objectives in the revised Supplement to the Regulator's revised DC Code and DC Guides is appropriate? If not please explain why.

Yes. We believe that the alignment of the control objectives to the Code of Practice 13 allows master trusts to robustly evidence that they are meeting the requirements that TPR has established for trust-based occupational pension schemes providing money-purchase benefits.

### 2. Are there any additional control procedures which should be included in the revised Supplement?

For the most part, the control objectives set out enable master trust schemes to evidence that they meet TPR's requirements. However, there are a number of points that we would like to make on the proposed control objectives:

- Control objectives 7 and 8 could be merged to form a single control objective, rather than separately covering controls over fitness and propriety pre and post-appointment.
- In control objective 12 we would query the use of the word 'treat' to refer to techniques for addressing risk. The phrase 'manage or mitigate' more closely reflects the provisions in Code of Practice 13.
- When referring to core transactions in control objective 13, we would prefer the objective to reflect the wording of Code of Practice 13 and explicitly refer to 'all transactions which relate to the handling of member and employer contributions, and assets relating to those contributions, once they have been received by the scheme'. This should ensure consistency among all providers' reports.

- In control objective 15, we would ask the ICAEW to reconsider the omission of ‘and members are treated fairly as a result of that rectification’.

In regards to the objectives that have been removed, it is our opinion that:

- With the omission of the old control objective 11, the decision making process for establishing investment strategy is not explicitly covered although the subsequent review of those decisions is. We believe that this could be usefully included in the new control objective 4.
- The old control objective 14 referenced disclosure of full charging details to the employer at the point of selecting the scheme. We believe that this is still appropriate and would suggest that it could be included in the new control objective 2.

Finally, we believe that a review of the control objectives should be carried out as soon as the additional governance requirements for master trusts, expected in the forthcoming Pensions Bill, are known.

**3. As set out in paragraph 12 of the revised Supplement, the Regulator expects subsequent AAF Reports to be completed within three months of the reporting date. Do you think this is reasonable? If not please explain why.**

NEST Corporation has aligned completion of the AAF 02/07 report with our scheme annual report and accounts and, as such, for the 2015/16 report we completed the governance sign off within the three months proposed by the new consultation proposals. We believe that in most cases the timescale should be achievable, but that a ‘comply or publically explain’ approach should be taken where this is not the case.

**4. The revised Supplement is effective for all Type 2 reporting periods commencing after 31 December 2016 and Type 1 reports that fall after this date. Do you consider the effective date of the revised Supplement and the transitional arrangements (set out in paragraph 30) appropriate? If not please explain why.**

The proposed effective date should not cause any issues for master trust providers and, as such, is appropriate. However, we recognise that this could mean that some providers might not report on the revised control objectives until late 2017 and this may not be appropriate.

Whilst the changes to the framework appear significant, many of the original control objectives remain unchanged and where new control objectives are introduced, these are in areas in which all master trusts should already have adequate internal control structures. As such, we would prefer to see an earlier implementation.

## Summary

In summary, we are pleased with the revisions made and feel that aligning the control objectives of the supplement with TPR’s defined contribution (DC) Code and DC guides is sensible. We remain satisfied that the right control objectives are included in the revision and are overall satisfied with the revisions that have been made.