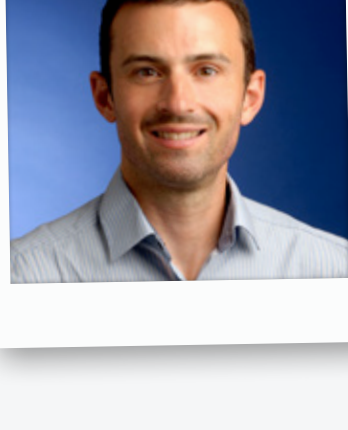


# Regulatory Outlook

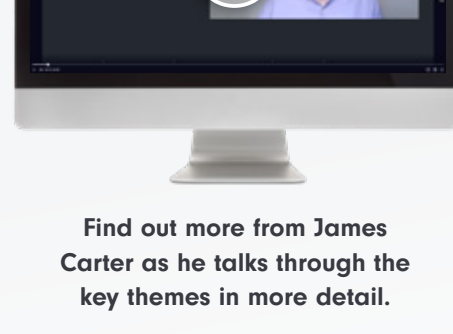


## Foreword

**James Carter**  
Head of Pension Products and Policy

### In this issue...

- Statutory review of the Chair's statements
- FCA Consultation on nudges to Pensions Guidance
- Draft Pension Scam Regulations
- Simpler annual benefit statements
- Permitted charges within Defined Contribution pension schemes
- Consolidation of DC schemes
- Pension Dashboard Staging



Find out more from James Carter as he talks through the key themes in more detail.

If you read the Q1 update you might remember that I said that we were awaiting numerous policy announcement and quarter 2 did not disappoint.

From April through June, there were around a dozen announcements from the Government and Regulators. The pace as well as volume of policy making is really high. We are seeing shorter consultation periods and a focus on pensions supporting broader Governmental policy, for example, climate change and levelling up.

I would characterise the current policy making themes as seeking to improve: Engagement, Standards of Governance and the Security of Outcomes.

Looking at engagement – draft regulations were published in May to mandate simpler 2-page annual benefit statements from April 2022. The clarity and focus of this message is obviously hugely important and something we support. I do feel there remains a tension between the volume of information the Government wants to see on those two pages and the ability to keep the document uncluttered and engaging. Hopefully the final regulations will address that point and allow schemes to deliver a document which focuses on effective communication of those critical messages.

I talked about the pensions dashboard last quarter and it would be remiss of me not to mention it again given the call for input published in May which gives us sight of the proposed timing and sequencing for schemes connecting to the dashboard. I believe the dashboard has the potential to create a step-change in member engagement through fostering a genuine sense of control and ownership.

It's proposed that large master trusts and FCA regulated pension schemes will connect first from April 2023, with subsequent waves working through DC schemes by size and into DB schemes. Importantly these proposals cover when schemes will be required to connect to the dashboard. However, they don't tell us when the dashboard will go live with consumers. That will be dependent on when a critical mass of connected schemes has been achieved and that threshold hasn't been set yet. We know from our interactions with the dashboard programme that a lot of thought is being given to how it can support an earlier consumer go live date.

In June, the DWP published its consultation response on value for members assessments by DC schemes with assets valued less than £100m. New regulations will require trustees to consider prescribed issues in their value assessments, including comparing charges and investment returns with three larger schemes. The Government is clear that it wants to see these smaller schemes consolidate into larger ones.

In relation to the security of members' outcomes, the Government has also consulted on a new regime to tackle pension scams and the FCA has proposed new requirements intended to increase the take up of Pension Wise guidance. The details of new requirements have been conceived quite quickly and we hope to see clarifications and adjustments in subsequent responses and final rules. The imperative of preventing scams is obvious and Fidelity was pleased to make the Pensions Regulator's pension scams pledge. We also support efforts to encourage members to use Pension Wise but feel that the FCA's proposals seek to intervene at the wrong moment – after a member has made decisions and wants to proceed with transacting. We are advocating for earlier nudging to guidance and considering how the pensions dashboard can, in time, be leveraged to increase the demand for guidance and facilitate bookings.

## Workplace Investing



## What are the Government and Regulators thinking about?

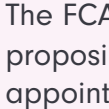


### Statutory review of the Chair's statements – April 2021

DWP completed a statutory review of the Chair's statements and found that they are failing to work as intended.

The review suggested that, in order for the statements to deliver their goals, the Government and TPR should consider the intended audience and provide greater clarity to the pensions industry to 'remove collective confusion and ambiguity'.

**We agree that the Chair's statement is currently being used as a compliance document and is too cumbersome to be used for member engagement. We look forward to DWP engaging with the schemes and considering appropriate solutions.**



### FCA Consultation on nudges to Pensions Guidance – May 2021

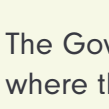
The FCA want to increase the consumer use of Pension Wise. To achieve this, they are proposing that pension providers must offer to book consumers a Pension Wise guidance appointment when accessing pension benefits (and, in some cases, when consumers are transferring their pension).

DWP plan to consult on similar rules for trust-based schemes.

**When used, Pension Wise receives extremely positive feedback from pension scheme members and is a hugely valuable service. Fidelity strongly supports the intention of increasing members' engagement with their pensions and the FCA encouraging further take-up of Pension Wise's services.**

**However, we believe engaging members earlier in their retirement journey will be more impactful and avoids them becoming frustrated at perceived 'barriers' they face at the point of drawing their benefits. By this time, they often feel they have made their decisions and want to transact quickly, so they are less likely to take up Pension Wise guidance.**

**No further action is required from plan sponsors, however, DWP is considering similar rules for trust-based schemes so there may be further actions for trustees in the future.**



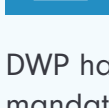
### Draft Pension Scam Regulations – May 2021

The Government wanted to give more power to trustees and schemes to prevent transfers where there is a suspected scam. These draft regulations allow schemes to block transfers in certain circumstances.

Receiving schemes are split into two main categories based on the perceived level of risk. If a scheme is categorised as 'low risk' no further investigations are required, however, all other schemes will require further checks prior to the transfer being allowed to proceed.

**We are supportive of increased powers to guard against scams and note that scammers use ever evolving techniques. However, we do need to be careful to not unduly obstruct the large majority of valid transfers. We would like to see a streamlined process for transfers facilitated by regulated advice and for the regulations to allow regulators and pension schemes to adapt to developing scam practices over time.**

**The regulations are planned to come into force from Autumn 2021. Trustees need to consider the increased steps they will be required to take when transfers from their scheme have been requested.**

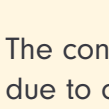


### Simpler annual benefit statements: draft regulations and statutory guidance – May 2021

DWP has released draft regulations for consultation on simpler two page statements. Whilst mandatory information must be contained within those first two pages, more information can be provided within further inserts if necessary.

At this stage, only DC schemes used for Automatic Enrolment are in scope of these regulations which are proposed to come into effect on 6 April 2022.

**We are progressing well with our delivery of the two page statement and will be ready for April 2022. We would like to see the Government plan to expand the scope of these regulations over time so all DC schemes are captured.**

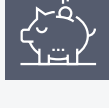


### Permitted charges within Defined Contribution pension schemes – May 2021

The consultation covers the well-publicised ban on flat fees on pots of £100 or less, which is due to come into force from April 2022.

DWP are also keen to make charges more transparent for members and employers and is seeking input on whether to restrict the permitted charging structure to a single percentage charge of the pot value.

**We do not believe that moving to a single permitted charging structure will achieve DWP's aims of increasing member understanding and could be detrimental to the market. For charges to be better understood the industry should focus on presenting charges in £/p.**



### Consolidation of DC schemes – June 2021

#### Value for money in small schemes

DWP has confirmed its intention to mandate a value for members (VfM) framework for schemes with less than £100m in assets.

Such schemes will need to consider prescribed issues in their value for members assessments, including by comparing their costs and charges and investment performance against three large schemes. If trustees conclude that their scheme is not providing value for members, they must explain to TPR whether they intend to wind up or set out a plan for improvement.

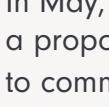
DWP also confirmed that regardless of size, schemes will need to disclose the net investment (performance) returns within the Chair's statement.

#### Further DC consolidation

In addition, DWP released a call for evidence to seek views on their intention to drive a second phase of consolidation for schemes valued between £100m and £5bn. The Government believes there are too many DC schemes and wants to 'accelerate the pace of scheme consolidation', but also to help facilitate investment in illiquid assets.

The call for evidence seeks to understand what barriers there are in place at the moment for schemes and what can be done to drive consolidation towards arrangements such as master trusts.

**We are supportive of the Government's intention to improve the governance of small schemes, however, we are not aware that there is any evidence to demonstrate that there are systemic issues with the governance of schemes valued between £100m and £5bn. The driver may be to create bigger asset pools for illiquid investments but we think this agenda needs more thought before simply forcing consolidation.**



### Call for Input – Pension Dashboard Staging

In May, the Pensions Dashboard Programme (PDP) launched a call for input laying out a proposed timeline for schemes to connect to the dashboard ecosystem. It is proposed to commence in April 2023 with master trusts and FCA regulated pensions being the first to connect followed by large DB and DC schemes.

**We are actively analysing the key publications from the programme and do not currently have any concerns about our ability to connect to the Dashboard and share data, when required.**

## An overview of other regulatory items from this quarter

#### ■ Performance fees

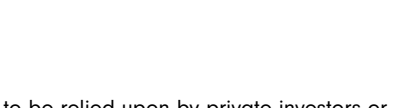
Draft regulations have been laid confirming that trustees can smooth performance fees over a five year period. The Government confirmed that DC pension schemes will be permitted to smooth performance fees over a five-year period.

The Government has committed to clarifying the current requirement to 'look-through' costs on closed-ended funds or pooled investment vehicles. It will consider whether this means an amendment to, or a removal of the requirement. Further information will be provided prior to the summer recess.

#### ■ Climate related disclosures

DWP finalised their regulations for climate related reporting for master trusts and large occupational schemes. The FCA released their consultation outlining their intentions on disclosures for asset managers, life insurers and FCA regulated pension providers. The FCA's proposals were expected and are consistent with the Government's roadmap towards mandatory climate-related disclosures, published in November last year.

## Workplace Investing



#### Important information

This material is for the attention of UK schemes sponsors, trustees and their advisors and is not to be relied upon by private investors or pension scheme members. The views expressed by Fidelity and the third parties in this newsletter may no longer be current and should not be taken as a recommendation to take any course of action.

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