

Code of Practice no. 15

# **Authorisation and supervision of master trusts**

July 2018

The Pensions  
Regulator



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Presented to Parliament pursuant to Section 91(5) of the Pensions Act 2004 Draft to lie before Parliament for forty days, during which time either House may resolve that the code be not made.

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## Introduction

1. This code of practice relates to the authorisation and supervision of master trusts, which was introduced by the Pension Schemes Act 2017 (the Act) and the Occupational Pension Schemes (Master Trusts) Regulations 2018 (the Regulations).
2. The publication of this code of practice is a statutory requirement.<sup>1</sup> This code's purpose is to set out clearly how an application for authorisation is made and the matters we will take into account when considering applications. The code will help those involved in master trusts to understand how to satisfy us that the authorisation criteria are met at application and continue to be met throughout supervision.
3. This code applies to those involved in the operation of a master trust, for example trustees, scheme strategists, scheme funders and their advisers.
4. This code assumes that trustees have a good working knowledge of existing legal requirements and our expectations in other codes of practice, which will continue to apply where relevant in addition to the authorisation regime.
5. This code of practice is issued by The Pensions Regulator (TPR), the body that regulates occupational pension schemes. The code has been produced under the power given to us in section 90 of the Pensions Act 2004.
6. 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, and
  - ▶ to maximise compliance with the duties and safeguards in the Pensions Act 2008.
7. We have a number of regulatory tools, including issuing codes of practice, to enable us to meet our statutory objectives.
8. Codes of practice provide practical guidelines on the requirements of pension legislation and set out standards of conduct and practice expected of those who must meet these requirements.
9. This code is supported by a number of products, including guidance, which assists trustees in applying for authorisation and throughout supervision to understand the evidence that will need to be provided.

<sup>1</sup> Section 90(2)(ja) and (jb) Pensions Act 2004.

## Status of this code of practice

10. Codes of practice are not statements of the law and there is no direct penalty for failing to comply with them<sup>2</sup>, although the Regulations do provide for certain requirements to be set out in the code and it is therefore a legislative requirement that those provisions are followed. The parts of the code with a direct legislative underpin are clearly indicated where referred to. The code sets out what we will take into account in deciding whether we are satisfied that a master trust 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 master trust meets all the criteria then we would not be able to 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.
11. It is not a statutory requirement for the provisions of the code of practice to be followed, except in the circumstances set out above, but if you do follow the code's provisions you should be doing enough to comply with the law in respect of those specific matters on which the code gives guidance or sets out standards. You may use alternative methods to those in the code in order to comply with the law, however we may rely on the code before the Determinations Panel or in legal proceedings as evidence that a requirement has not been met<sup>3</sup> and you would need to establish that the alternative approach still met the underlying legal requirements.
12. If there are grounds to issue an improvement notice, or a compliance notice, we may direct a person to take, or refrain from taking, steps that are 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.<sup>4</sup> If we decide not to authorise a master trust, or to de-authorise a master trust after it has obtained authorisation, the reasons for our decision may refer to this, or any other, code of practice.

2  
Section 90(4)  
Pensions Act 2004.

3  
Section 90(5)  
Pensions Act 2004.

4  
Section 13(8)  
Pensions Act 2004.

## Authorisation

13. Master trusts are required to be authorised in order to operate and this code sets out the process for trustees to make an application for authorisation. For a master trust to be authorised, we must be satisfied that it meets all of the authorisation criteria.
14. This code sets out what we expect to take into account in deciding whether we are satisfied that a master trust has met the criteria. The code should be read in conjunction with relevant legislation and accompanying guidance that provides more practical information on how trustees may demonstrate that the scheme meets the authorisation criteria.
15. The application for authorisation needs to be submitted by the trustees and should be in our required format. The trustees should be able to satisfy us that the scheme meets the criteria and the application form(s) will guide trustees through the information and evidence that must be submitted.
16. If a master trust is not authorised, it cannot operate and will be required to wind up and transfer any members it may have.
17. After a transitional period for existing schemes, a master trust cannot operate until it has been authorised.
18. We expect trustees, strategists, funders and those supporting them, to be open and honest in the information provided and in their dealings with us. Providing false or misleading information could lead to a master trust not being authorised or being de-authorised.

## Supervision

19. Once authorised, those running a master trust will need to satisfy us that it continues to meet the authorisation criteria. This is called supervision.
20. Supervision will be a risk-based proactive process through which we will seek to understand how master trusts continue to meet the authorisation criteria. As part of this process, there will be a supervisory return, which will provide updates against the criteria. This can be issued no more than once per year. Significant events must also be reported to us as they may have an immediate impact on a master trust's continuing ability to meet one or more authorisation criteria.
21. If we are no longer satisfied that a master trust meets the authorisation criteria we may take regulatory action, including deauthorising the master trust.



## What is a master trust?

22. This section of the code covers master trusts and certain other types of pension schemes that are to be treated as master trusts for the purposes of Part 1 of the Act. The definition in this section of the code is drawn from the Act and Regulations. This section provides a summary of the position and should be read in conjunction with the Act and Regulations.
23. Trustee boards should consider the need for professional advice to establish the extent to which the legislation applies to them.
24. Should a pension scheme that is a master trust under the Act<sup>5</sup> and Regulations<sup>6</sup> not apply for authorisation before it starts to operate, it will be required to cease operating and wind up. If the master trust started operating before 1 October 2018, it must apply for authorisation before the end of the application period (1 April 2019, or up to six weeks later if an extension is granted) or it will be required to cease operating and wind up<sup>7</sup>. Where an application for authorisation is made, the master trust can continue to operate while the application is determined. New master trusts from 1 October 2018 must apply for and receive authorisation before they are permitted to operate.<sup>8</sup>
25. The law<sup>9</sup> defines a master trust scheme as an occupational pension scheme which:
- ▶ provides money purchase benefits (whether alone or in conjunction with other benefits)
  - ▶ is used, or is intended to be used, by two or more unconnected employers, and
  - ▶ is not a relevant public service pension scheme.
26. Any scheme offering mixed benefits which meets the definition is also required to comply with the legislation and the requirements of this code in respect of the money purchase benefits. There are some exceptions to this which are set out below.

5  
Sections 1 and 2 Pension Schemes Act 2017.

6  
Regulations 3, 28 and 29 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

7  
Section 3 Pensions Schemes Act, as modified by paragraph 8 of Schedule 2 to the Act, for the period following the commencement date.

8  
Section 3 Pension Schemes Act 2017.

9  
Section 1(3) Pension Schemes Act 2017 and sections 1 and 2 Pension Schemes Act 2004.

## Cluster schemes

27. This code also covers groups of schemes providing money purchase benefits (whether alone or in conjunction with other benefits), none of which are master trusts, but where each scheme in the group is under 'common control' with other schemes in the group. We refer to these arrangements as cluster schemes. In this case the schemes are together treated as a single master trust.
28. Common control is defined as a situation where schemes have three of the following people in common:
- A scheme funder (or a person who would be a scheme funder if the scheme were a master trust scheme).
  - A scheme strategist (or a person who would be a scheme strategist if the scheme were a master trust scheme).
  - A person who promotes or markets the scheme.
  - A majority of trustees.
29. Alternatively, where the schemes have two of the persons listed above in common, and are provided by a common service provider or are subject to the same rules, they will be treated as a single master trust scheme.
30. A group of schemes will not be regarded as a cluster scheme where they only have outsourced service providers in common. Cluster schemes are regarded as a single master trust where separate schemes are subject to the same controlling influences.
31. Schemes such as relevant small schemes<sup>10</sup> (where 50% or more of the trustees are members of the scheme), single member schemes and schemes where the only money purchase benefits are in respect of AVCs or transfers in (subject to restrictions on when those AVCs/ transfers were received) will not be regarded as cluster schemes. Nor will a cluster scheme be created where we have appointed a professional independent trustee to one of the schemes, provided it is closed to future contributions.<sup>11</sup> The requirement to treat separate schemes as a single master trust will also not apply where all of the employers in a cluster of schemes are connected as prescribed in legislation.<sup>12</sup>
32. A group of schemes, where one is a master trust and the other(s) are promoted primarily to provide decumulation options for current or former members of that master trust, will be treated as a single master trust scheme where they are under common control.

10  
Regulation 27(3) of the Occupational Pension Schemes (Master Trusts) Regulations 2018 and regulation 1(2ZB) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

11  
Regulation 29 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

12  
Regulation 29 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

## Schemes that fall out of scope

33. For the avoidance of doubt, the Act does not apply and a scheme will not be a master trust where one or more of the following paragraphs apply:

- a. All of the employers participating in it are connected. The Act and Regulations set out the circumstances in which employers are connected. These include where employers are part of a group undertaking as set out in legislation<sup>13</sup> or are connected through certain corporate activity such as joint ventures.<sup>14</sup>
- b. Mixed benefit schemes where:
  - the only money purchase benefits are attributable to the additional voluntary contributions (AVCs) made by or on behalf of non-money purchase members when they are active members of the scheme, or
  - when they have ceased to be active members of the scheme because they have reached a maximum service limit in relation to the scheme.<sup>15</sup>
- c. Mixed benefit schemes where the only money purchase benefits are money purchase rights or benefits transferred in respect of members who – at the time of the transfer – were active non-money purchase members of the scheme, and where those benefits are closed to future accrual.<sup>16</sup>
- d. Schemes where the only money purchase benefits are attributable to pension credits.<sup>17</sup>
- e. Schemes offering only defined benefits.
- f. Schemes providing money purchase benefits, alone or together with other benefits, used or intended to be used by two or more employers which on 20 October 2016 had membership limited to members, or former members, of a pension scheme established by statute for a specific occupational group, industry or profession, which ceased to accept new members before 1 April 2019.<sup>18</sup> In this case, a new member would include a deferred member who restarted active membership, except where this was as a result of a TUPE transfer.
- g. Schemes with only one member who is, or has been, employed by all the employers which use the scheme.<sup>19</sup>
- h. Schemes which are relevant small schemes (commonly known as SSASs), where the scheme only has one member, or where 50% or more of the trustees are members of the scheme. These schemes continue to be regulated where the relevant legislation applies, as described in our existing codes and guidance.

13  
Section 1161 (5)  
Companies Act 2006

14  
Regulation 3(1)(e) of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

15  
Regulation 27(4)(a) of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

16  
Regulation 27(4)(b)  
of the Occupational  
Pension Schemes  
(Master Trusts)  
Regulations 2018.

17  
Regulation 27(4)(c) of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018 and  
section 29 Welfare  
Reform and Pensions  
Act 1999.

18  
Regulation 26(1) of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

19  
Regulation 27(1) of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

## Northern Ireland

34. In this code, references to the law extend to the territories of England and Wales and Scotland. The code will be updated to include references to corresponding legislation in Northern Ireland when this is brought into force.
35. The Pension Schemes Act 2017 introduces a prohibition on operating a master trust unless the scheme is authorised. 'Operates' is defined<sup>20</sup> in this Act as:
  - ▶ entering into an agreement with an employer for the provision of pensions savings, or
  - ▶ accepting money from members or employers in respect of fees, charges and contributions in relation to the scheme.
36. A master trust scheme may not operate in England and Wales or Scotland unless authorised under the Pension Schemes Act 2017, even if the scheme itself is based in Northern Ireland.
37. This means that an unauthorised master trust scheme established anywhere in the UK cannot agree to provide a pension for an employer's workforce based in England and Wales and Scotland, nor can it accept contributions, fees, charges or similar from members or employers based in England and Wales and Scotland.

20  
Section 3(5) Pension  
Schemes Act 2017.

## The authorisation criteria

38. The Act sets out the criteria that we need to be satisfied master trusts meet for them to be authorised.
39. We will need to be satisfied that a master trust meets all five of the authorisation criteria<sup>21</sup> to be authorised and operate in the market.
40. The authorisation criteria are as follows:
  - a. Fit and proper**

All individuals being assessed must be able to satisfy us that they are fit and proper because they meet the standard of honesty, integrity and knowledge appropriate to their role.
  - b. Systems and processes**

Master trusts must have sufficient IT systems and processes in place to run efficiently and have robust systems and processes to effectively govern the scheme and comply with all the relevant requirements.
  - c. Continuity strategy**

Sufficient contingency planning is crucial to the effective running of a master trust and we'll be looking for a credible strategy as to how members will be protected if there is a triggering event and how a master trust may be closed down or how the triggering event will be resolved.
  - d. Scheme funder**

Any scheme funder must be a body corporate or partnership and only carry out activities relating directly to master trusts (unless exempt<sup>22</sup>). We will be looking for clear evidence in relation to its business activities that it is able to financially support the master trust.
  - e. Financial sustainability**

The master trust needs to have enough financial support to ensure it can set up and operate on a day-to-day basis and to cover the costs subsequent to a triggering event without increasing the cost to members. A key part of demonstrating that the authorisation criteria are met is by having a business plan in place setting out the expected activities and growth of the master trust and how they will be funded. This plan will be critical in our assessment of whether a master trust meets the authorisation criteria.

21  
Section 5(1) and (3)  
Pension Schemes  
Act 2017.

22  
Regulation 8 of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

## Fit and proper

### Need to know

The requirement to be assessed as fit and proper applies to the scheme trustees, scheme funder, scheme strategist and various other roles. Schemes will have to identify each person subject to a fit and proper test.

There are different thresholds to this criterion for different roles. We may look through corporate structures to the individuals on relevant boards who are performing core functions in relation to the scheme. Details of, and forms for, the application process are provided online.

### Evidence required

The evidence required will vary from role to role. A declaration and criminal conviction certificate will be required for each individual subject to the assessment.

For trustees and strategists, we may request evidence of competence, including statements of development, evidence of qualifications or learning programmes and other relevant professional experience.

41. In order to obtain authorisation, we must be satisfied that those who exert control over the master trust are fit and proper.<sup>23</sup> The Regulations<sup>24</sup> set out the matters we must take into account in our assessment. These matters relate to:
  - a. honesty, integrity and financial soundness
  - b. competence
  - c. conduct.
42. We may also take into account other matters we consider appropriate, including those relating to a connected person.<sup>25</sup>
43. We may take into account matters that occur within and outside the UK.
44. In applying for authorisation, trustees need to ensure that sufficient evidence has been provided to demonstrate that every person who needs to be assessed meets the requirements.
45. Our expectation is that before applying for authorisation, those running master trusts will use this code to carry out due diligence (to the extent possible) to determine if the relevant persons meet the requirements to be fit and proper, and identify any action needed. The trustees are required to submit the application, but applications are likely to be stronger if the funder, strategist and trustee work together.

<sup>23</sup>  
Section 7(1) Pension Schemes Act 2017.

<sup>24</sup>  
Regulation 5 and Schedule 1 to the Occupational Pension Schemes (Master Trusts) Regulations 2018.

<sup>25</sup>  
Section 7(4)(b) Pension Schemes Act 2017.

## Who we will assess

46. We expect the application for authorisation to identify the persons who fulfil the roles<sup>26</sup> that are part of the fit and proper assessment and to provide evidence of their fitness and propriety to us in the application. Where the roles are fulfilled by a corporate entity, we will assess the appropriate senior individuals. We would not normally expect to assess the corporate entity as a whole.
47. It is possible for an individual or legal entity to have more than one role in relation to a master trust. For example, they can be both a strategist and funder. In that case, the person will be assessed for fitness and propriety in relation to each role.

## Identifying who is subject to the fit and proper test

### 48. The person who establishes the master trust

This is the person who established the trust deed and rules and may have provided the initial financial backing for the master trust. They may still be the scheme funder or scheme strategist. In some cases, they may remain connected to the master trust in the capacity of a shadow director or scheme adviser. If they no longer have any decision-making capacity in, or influence over, the master trust, we do not consider that they need to be assessed.

### 49. Trustee

A trustee board may be comprised of one or more of the following:

- If the master trust has trustees who are appointed in their capacity as individuals, all of those trustees will need to be identified.
- If a trustee is a corporate body, then all of the trustee directors carrying out trustee functions in relation to the scheme will need to be identified.
- If any trustee directors are themselves a corporate body, the individual who is performing the core functions<sup>27</sup> and decision-making on behalf of the trustee director will need to be identified. If two or more individuals exercise core trustee director functions on behalf of a corporate trustee director, they will all need to be identified.

### 50. Scheme funder

A scheme funder is required to be a body corporate or partnership.<sup>28</sup> Where the scheme funder is a corporate body, all individual directors need to be identified. Where the scheme funder is a partnership, all partners need to be identified.

<sup>26</sup>  
Section 7(2) Pension Schemes Act 2017.

<sup>27</sup>  
Regulation 5 and paragraph 2 of Schedule 1 to the Occupational Pension Schemes (Master Trusts) Regulations 2018.

<sup>28</sup>  
Section 10(2) Pension Schemes Act 2017.

51. The scheme funder<sup>29</sup> is a person who:
- a. is liable to provide funds to enable the master trust to continue to run if it cannot meet its running costs from member charges, or
  - b. is entitled to receive profits from the scheme where member charges exceed running costs.

They may also be required to do the following:

- c. Pay for the cost of running the master trust following a continuity option<sup>30</sup> if there is a triggering event.
  - d. Agree the business plan and continuity strategy with the trustees and strategist.
52. Whether a person is a scheme funder, or performing a core function on behalf of one, is a question of fact. It is not determined by their job title but what the person does in practice.
53. The scheme funder will most commonly be the person who is financially supporting the master trust, with, where relevant, the expectation of being able to later draw profits. It is not necessarily the case that the person who is financially supporting the master trust is the same as the person who is entitled to receive profits from it. If this is the case, then both parties may be the scheme funder.
54. A scheme may have more than one funder. We do not consider it practical for a scheme to have a significant number of scheme funders, as it decreases visibility of scheme funding and may make it more difficult to satisfy us that they are able to support the scheme. The requirement for us to assess the fitness and propriety of a scheme funder does not apply to mixed benefit schemes with two or more scheme funders, each of which are participating employers.<sup>31</sup>
55. In not-for-profit or other schemes where excess profits are used to improve the service to members, we do not consider that the members fall within the second part of the definition of scheme funder (a person entitled to receive profits where charges exceed costs).
56. If a master trust operates from its own resources and has no legally enforceable support from a third party or participating employers, there may not be a scheme funder. These schemes may generate sufficient income from assets under management or other fees and therefore not need financial support from a scheme funder.

29  
Section 39(1) Pension Schemes Act 2017.

30  
Section 23 Pension Schemes Act 2017.

31  
Regulation 28(1) and (2) (b) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.



57. **Scheme strategist**

All persons who fulfil the role of scheme strategist<sup>32</sup>, whether in an individual capacity or on behalf of a corporate entity, will need to be assessed. We recognise that a scheme strategist may be an individual, multiple individuals, a legal entity or operate collectively as a group of individuals.

58. All master trusts will have a scheme strategist. Your scheme strategist will be a person or group of people who makes business decisions about the master trust's commercial activities. This includes making business and strategic decisions about how the master trust will be run, such as which market segments the master trust is open to, the benefits that are offered and the staffing levels needed to operate.

59. The persons responsible for making these decisions must be identified as the scheme strategist, rather than one person being nominated as strategist where they do not actually make those decisions.

60. Your scheme strategist is accountable for producing and maintaining the business plan<sup>33</sup> and continuity strategy.<sup>34</sup> By accountable, we mean the individual or group who makes the decisions on what the business plan and continuity strategy will contain. This does not extend to the trustees or scheme funder where they approve the documents.

61. **Persons who can appoint or remove trustees**

We expect all persons who have the power to appoint or remove trustees will be identified in the application. The trust deed would normally identify who has this power. Members who vote as part of an election process do not normally have the power to appoint and they would not need to be identified.

62. **Persons who have the power to vary the terms of the trust, or vary the master trust if it is not held under trust**

We expect all individuals and legal entities who have this ability to be identified in the application. Where the scheme is under trust, the trust deed will normally identify who has this power. We do not consider that this includes employers who solely have the ability to change the admission criteria for their section, or individual members who have no other role within the master trust.

32  
Section 39(1) Pension Schemes Act 2017.

33  
Section 9(1) and (3) Pension Schemes Act 2017.

34  
Section 12(3) and (7) Pension Schemes Act 2017.

**63. Promoter or marketer**

In addition, we may also assess a promoter or marketer of the scheme. This will usually be in circumstances where the master trust offers white labelled products or where the business model relies on a limited pool of introducers. The individuals carrying out the functions of a promoter or marketer should be included as one of the persons to be assessed for fitness and propriety if one or both of the following conditions are met:

- a. The promoter or marketer has a level of influence in the scheme, either in relation to other parties who have control in running the master trust or in relation to the scheme's design and the benefits offered.
- b. The promoter or marketer has a financial motive, receiving commission or consultancy charges from the scheme or having access to wider incentives such as a promise to award a contract or benefit from other services provided to the scheme.

64. Our expectation is that, in applying for authorisation, trustees will need to identify whether a promoter or marketer needs to be included in the application according to the above criteria, or provide an explanation as to why there are no relevant people. We may choose to assess promoters or marketers that are not specifically identified.

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

## **Our approach to assessment**

66. The Regulations set out the matters that we must take into account when determining whether we are satisfied that a master trust is operated by fit and proper persons. In carrying out this assessment, 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. When considering these matters, we will take the following factors into account:

- a. The impact on others of the past or current behaviour or actions.
- b. How long ago the issue occurred.
- c. Whether there has been a pattern of behaviour which creates concern.

67. We have set out below, for the fitness and propriety test, the factors that are more likely to satisfy us that a person is fit and proper.
68. In a small number of matters, for example certain unspent criminal convictions or bankruptcy, we would be very unlikely to be satisfied that an individual is fit and proper. This is due to the serious nature of these matters, which are strong indicators that a person lacks the integrity or competence needed when charged with the care of members' pension savings and the management of their scheme.
69. If an application is submitted where these matters affect an individual, we will seek to understand from the trustees how they took reasonable steps to satisfy themselves that the individual meets the requirements to be fit and proper.
70. In some cases, these matters may mean that an individual is automatically barred under existing legislation from acting in different capacities, for example from being a trustee if they are bankrupt.

### **Honesty, integrity and financial soundness**

71. For a scheme to be authorised, we must be satisfied about the honesty, integrity and financial soundness of all persons being assessed, given all roles have significant control over members' savings.
72. If an individual is currently subject to a bankruptcy order, bankruptcy restrictions order (including an interim order) or an award of sequestration, we are very unlikely to be satisfied that they are fit and proper.
73. 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 an application has been made for a bankruptcy order or a bankruptcy petition has been served - we are more likely to be satisfied where:
  - a. they were discharged from bankruptcy, the CCJ or IVA more than five years before the authorisation application
  - b. there is not a pattern of bankruptcy, CCJs and IVAs
  - c. the CCJs do not indicate a persistent failure to settle outstanding debts.
74. If an individual is currently disqualified from acting as a director due to unfit conduct<sup>35</sup>, we are very unlikely to be satisfied that they are fit and proper.

35  
[https://www.gov.uk/  
company-director-  
disqualification](https://www.gov.uk/company-director-disqualification)

75. 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 event or 12 months before that event occurring, we are more likely to be satisfied where:
- a. they can demonstrate they were not significantly responsible in the failing of that company as a result of their action or inaction
  - b. there have not been multiple occurrences
  - c. the event occurred more than five years before the application for authorisation.
76. If an individual is currently prohibited or disqualified from acting as a trustee (in any capacity), we are very unlikely to be satisfied that they are fit and proper in any of the roles we assess.
77. If an individual has an unspent criminal conviction<sup>36</sup> related to dishonesty, fraud or financial crime, we are very unlikely to be satisfied that they are fit and proper.
78. If a individual has an unspent criminal conviction which is not related to dishonesty, fraud or financial crime, we are more likely to be satisfied where:
- a. the conviction relates to a minor offence, depending on the particular circumstances of the offence and any mitigating factors
  - b. there are not multiple convictions
  - c. the conviction is not relevant to the role being undertaken in the master trust.
79. 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 where:
- a. there is not a pattern of recurrent proceedings/ settlements for a breach of contract, or failure to fulfil obligations or duties
  - b. the individual being assessed did not have a significant role in the events that led to proceedings being brought
  - c. the impact that their action or inaction has had on other individuals or organisations was relatively limited
  - d. the proceedings solely relate to family or private matters.

<sup>36</sup>  
Within the meaning of section 1 of the Rehabilitation of Offenders Act 1974.

## Competence

80. Trustees and strategists have overall responsibility for the direction and operation of the master trust. It is therefore paramount that these individuals have the relevant skills, knowledge and experience to meet the needs of the scheme to ensure adequate member protection.
81. This should not stop a less experienced individual from taking on a new role, as long as they have a basic level of knowledge before they're appointed.
82. We expect the trustees and the scheme strategist to demonstrate they possess the relevant knowledge, skills and experience at the time of applying for authorisation and throughout supervision.

## Trustee competence

83. We will look at individual competence as well as the overall skills and experience possessed by the board.
84. We expect each trustee to be able to demonstrate a basic level of knowledge and understanding needed to run the master trust, at the time of appointment, which is equivalent to the Trustee Knowledge and Understanding set out in legislation.<sup>37</sup> We are more likely to be satisfied that each trustee has demonstrated they possess the knowledge needed at the time of the application, and subsequently throughout supervision, where:
  - a. they have completed the relevant modules of our Trustee toolkit or equivalent learning programme, or
  - b. they demonstrate that they have gained sufficient equivalent knowledge in relation to the scheme being authorised, through previous experience over a number of years of acting as a trustee or senior pensions role within a DC, mixed benefit or master trust scheme.

37  
As defined in sections  
247 and 248 Pensions  
Act 2004.

85. In addition to individual knowledge, it is equally important that the trustee board as a whole is able to demonstrate that they jointly possess the skills, knowledge and experience to run the master trust effectively. In assessing this, we are more likely to be satisfied where:
- a. the board can demonstrate that it has the skills, knowledge and experience appropriate for governing their master trust
  - b. there is a balance of skills and experience spread throughout the board and not concentrated in one or two members
  - c. the board can demonstrate that it has a range of diverse skills and experience in senior roles, to include DC pensions, trusteeship, investment, administration and communications
  - d. there is a plan in place for the ongoing maintenance and development of the board's knowledge. This should also address how any skill gaps will be tackled.
86. By senior role, we mean an individual who has accountability and responsibility for the day-to-day running of a company or organisation, including management, supervisory, technical or compliance oversight roles.
87. The board must<sup>38</sup> be able to demonstrate how competency will be maintained, including how they will identify and address skills gaps and seek to increase knowledge. This may be done by having a training, succession and development plan in place, setting out how this will be implemented and how progress will be tracked against the plan.
88. The board should be able to demonstrate that they have processes and standards for ensuring individuals subject to contract, employment or delegation are themselves individuals that possess relevant skills, knowledge and experience. This should be considered in conjunction with system and process requirements and the objectives set out in the business plan.
89. Where they have engaged a service provider, they should be able to demonstrate how they have assured themselves that the provider's staff has the necessary skills, experience and integrity.

38  
Regulation 5 of the  
Occupational Pension  
Schemes (Master Trusts)  
regulations 2018.

## Scheme strategist competence

90. We are more likely to be satisfied of a strategist's competence where the strategist has relevant professional qualifications and business experience, over a number of years, including experience obtained from pension, financial or insurance businesses of a similar scale.
91. We are less likely to be satisfied where business experience is limited to small scale operations not related to pensions, financial or insurance business, for example a single retail outlet.
92. Where the scheme strategist operates collectively as a group, we are more likely to be satisfied where the group can demonstrate that the majority of individuals possess relevant business experience rather than this being concentrated in one or two individuals.
93. The scheme's strategist must<sup>39</sup> also be able to demonstrate within the business plan how they intend to maintain and develop competence and succession planning.

## Conduct

94. In addition to having the skills, knowledge and experience to hold a role within a master trust, it is important that the role is being performed in line with legal requirements and regulatory expectations. A person's conduct can be relevant to both fitness and propriety.
95. We must<sup>40</sup> take into account a person's conduct over the five-year period before the authorisation application in relation to, a role held relevant to the assessed role. Their conduct will also be taken into account on an ongoing basis after authorisation.
96. We are more likely to be satisfied of an individual's conduct where they act in an open, honest and transparent manner. We expect individuals to be responsive to issues that may arise in their master trust and to drive better outcomes for their members.

39  
Paragraph 20 of  
Schedule 3 of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

40  
Paragraph 1 (j)(i) of  
Schedule 1 of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

97. With regards to specific matters, we are more likely to be satisfied about an individual's conduct where:
- a. they are not currently, or have not been, under investigation or are not subject to disciplinary action taken against them by a regulatory authority (including TPR), government agency or professional body
  - b. they have not had action taken against them or had permissions or licences removed due to misconduct by a regulatory authority (including TPR), government agency or professional body
  - c. they are not subject to any disciplinary or criminal proceedings, or have not been notified of any potential proceedings, including investigations.
  - d. they have not been dismissed, resigned or forced to resign from employment or a role involving a fiduciary duty due to negligence or misconduct
  - e. they have not been dismissed or forced to resign over poor management or failure to resolve a conflict of interest.
98. Being subject to an event outlined above does not automatically mean that we will not be satisfied that an individual is a fit and proper person. We will take into account all relevant circumstances including its relevance to the role, frequency, severity, impact, explanation offered, and whether the person took action to reduce the likelihood of the event recurring and any other mitigating or aggravating factors.



## Systems and processes

### Need to know

Master trusts will have to confirm that their IT systems can provide a minimum functional capability, and we may require them to demonstrate this to us. They will also be expected to demonstrate that they have effective systems and processes for running and governing the scheme and its operations.

Where a master trust is administered by third parties, the trustees will need to obtain evidence from them as to how the authorisation criteria can be satisfied.

### Evidence required

This may include assurance processes, audits, or similar materials received from service providers.

### Terms used

**Financial transactions (including core transactions):** This includes, but is not limited to, investment of contributions, transfers of member assets in and out of the master trust, switches of investments within the scheme, and payments from the scheme.

**IT systems:** IT systems used in the administration and governance of the master trust.

**Processes:** Processes and procedures that are followed in the administration and governance of the master trust.

**Reconciliation:** The process of ensuring that the records of contributions, transactions and investments on administration and other systems relating to the master trust and its members are consistent.

99. A master trust needs to satisfy us that it has sufficient systems and processes in place for it to be run effectively.<sup>41</sup>
100. For us to be satisfied, we will carry out our assessment in three main areas:
- a. The standards, functionality and maintenance of the IT systems used in scheme administration and governance.
  - b. The systems and processes and controls that are used in scheme administration.
  - c. The governance arrangements and processes used to ensure sufficient oversight of the master trusts activities.
101. We expect to see evidence that the systems and processes demonstrate how the key parties involved in the day-to-day running of the master trust (trustees, scheme strategist, funder, administrator and those managing investments) will work together to ensure effective governance.
102. We recognise that in a number of matters, the trustee may be reliant on a third party to provide information on how the master trust is administered. In these circumstances, while the activity itself can be delegated, the accountability cannot be delegated. This means the trustee will need to assure themselves of how the requirements are met.
103. The application should provide details of the assessment that the trustees have undertaken to demonstrate that the master trust meets the systems and processes requirements.
104. This could be demonstrated through independent checks on the master trust, internal audits and scheme documentation, particularly in respect of the functionality and maintenance of IT systems.
105. Our expectation is that, if the trustees do not have the internal expertise to assess the master trust systems and processes, then they will need to include evidence in the authorisation application that the master trust has had an external, independent external assessment, particularly in respect of the functionality and maintenance of IT systems.
106. Our systems and processes guide will provide further clarity of the specific areas where we believe independent external assessment frameworks and accreditations may support your evidence.
107. We are aware that, for many of these frameworks, the scope and methodology used in the assessment can vary and therefore, we will also want to see the scope, methodology and supporting evidence used by the assessor in making their report.

41  
Section 11(1) Pension  
Schemes Act 2017.

108. We will want to understand the control objectives that have been included, excluded or modified in any assessment and how the scope is relevant to the requirements for the systems and processes criteria. In addition, we will want to understand the level of interrogation that has been carried out in assessing the master trust, for example if a site visit was carried out.
109. Where an independent assessment is provided, we expect the trustees to identify any issues or concerns that they consider to be material to their application.
110. We recognise that in some master trust operations, there will be a suitably qualified internal audit function which may also be able to provide the same level of scrutiny as an independent external assessment.

### **Functionality and maintenance of IT systems**

111. The Regulations<sup>42</sup> set out the IT system functionality a master trust is required to have in place to effectively run the scheme.
112. It will be difficult for us to be satisfied that a master trust 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.
113. System functionality is important as it provides a basis for good administration and ensuring that members receive the correct benefits at the right time.
114. The requirements set out are the basic functionality needed to ensure the master trust can run effectively, but this doesn't stop it from having more advanced technology.
115. The table on page 25 outlines the matters more likely to satisfy us in relation to sufficient systems functionality.

42  
Schedule 4(1) of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

Requirement	Matters more likely to satisfy TPR
Administration system payments	<ul style="list-style-type: none"> <li>▶ The default is for all payments in and out of the master trust to be made electronically and any manual payments are made by exception.</li> <li>▶ The IT system has the capability to accept contributions from a range of sources<sup>43</sup> and caters for different sizes of employers.</li> <li>▶ There is a capability for the transfer of data and monies from and to employers (including third party payroll or other providers acting on behalf of employers), administration systems, (whether in-house or third party), investment managers, and investment platform providers.</li> </ul>
Administration system records <sup>44</sup>	<ul style="list-style-type: none"> <li>▶ The IT system has the capability to record members' benefits correctly, including identifiers,<sup>45</sup> contributions, investments, member decisions, payments and transfers.</li> <li>▶ The IT system contains the functionality to record member contributions and generates reporting on historic contributions, including each pay period, the amount, when it was received and invested, how it was invested and unitisation.</li> </ul>
Administration system transactions <sup>46</sup>	<ul style="list-style-type: none"> <li>▶ The IT system has the capability to process financial transactions, including core transactions<sup>47</sup> automatically and securely, and calculating accurate investments and disinvestments. This needs to be the case where there is a member instruction or a default is used.</li> <li>▶ The system has the capability to carry out reconciliations of data against transactions and investments held and there is capacity for the reconciliation to be carried out against all members and multiple cycles.</li> <li>▶ There is a process for rectifying any errors identified.</li> <li>▶ There is segregation of duties in the administration system to encompass a more junior level of clearance to input data and request payments or investment changes, and a more senior level to authorise changes and transactions.</li> <li>▶ There are authorisation levels in the administration system to prevent payments of certain sizes exceeding those allowed by the trustee mandate.</li> </ul>

43 This should include multiple employers, payroll systems and individuals where applicable.

44 Regulation 10 and paragraph 1 of Schedule 4 to the Occupational Pension Schemes (Master Trusts) Regulations 2018.

45 This may include names, addresses, reference numbers, date of birth and membership dates.

46 Schedule 4(1) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

47 Schedule 4(1)(a) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

116. 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. We are more likely to be satisfied where:

Requirement	Matters more likely to satisfy TPR
Planning for change <sup>48</sup>	<ul style="list-style-type: none"> <li>▶ Evidence is provided of how known changes to the system are planned and executed, and this is reflected in the business plan.</li> <li>▶ Evidence is provided to show that the system is able to be updated. There is evidence of a robust methodology for releasing changes to systems, along with a portfolio of ongoing change to systems for the period of the business plan.</li> <li>▶ There is an IT process for making scheduled and known changes, including annual updates and changes in tax thresholds.</li> <li>▶ There are adequate and sufficient resources, with appropriate skills and resources, to carry out the work.</li> <li>▶ There is evidence that the IT system can meet the physical system requirements anticipated in the business plan and that it has the funds to meet those requirements.</li> <li>▶ The business plan accounts for how planned and potential future upgrades can be managed within the administration system and the strategist and trustee are satisfied that the system can be upgraded to meet the needs of the master trust.</li> <li>▶ There is a policy in place for maintaining, upgrading, and replacing hardware and software and this is accounted for in the business plan.</li> </ul>

48 Schedule 4(3) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

117. An important element of maintaining systems is ensuring that data is appropriately protected and in this respect we are more likely to be satisfied where:

Requirement	Matters more likely to satisfy TPR
Protecting data <sup>49</sup>	<ul style="list-style-type: none"> <li>▶ There are cyber defence strategies in place, including firewalls and intrusion detection systems.</li> <li>▶ There are procedures and protocols in place for governance, the identification of risks and breaches, and responding to cyber incidents.</li> <li>▶ There are roles assigned to manage these protocols and procedures.</li> <li>▶ Scheme and member data should be backed up at least daily, with backup servers at an external location and an offline backup.</li> <li>▶ There is a disaster recovery process in place with roles assigned and it is tested every six months, or over a longer period if appropriate for the scheme and the risk being managed.</li> </ul>

## Systems and processes, including how they are governed

118. The Regulations set out the systems and processes that a master trust is required to have in place to operate effectively. By processes, we mean policies, processes and procedures.

119. If a master trust does not have all relevant processes in place, we are unlikely to be satisfied that the authorisation criteria have been met. We also expect to see evidence that the processes in place are those being used in the running of the scheme and that they are effective.

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

121. In respect of data reconciliations on the administration system we are more likely to be satisfied where:

Requirement	Matters more likely to satisfy TPR
Reconciliations	<ul style="list-style-type: none"> <li>▶ The process demonstrates how reconciliations will be completed and by who.</li> <li>▶ Reconciliations are completed at least once a month.</li> <li>▶ The process sets out the action that will be taken to put members in the correct position if errors or inconsistencies are found and how under/over allocations of units will be treated and funded.</li> </ul>

49 Paragraphs 2 and 8 of Schedule 4 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

122. The table below outlines what will satisfy us around processes.

Requirement	Matters more likely to satisfy TPR
Record-keeping <sup>50</sup>	<ul style="list-style-type: none"> <li>▶ The process directs how records are kept up-to-date and that exception reporting is in place to ensure that errors and gaps, once identified, are reported to the relevant governance function.</li> <li>▶ There is a plan to rectify data errors, and the business plan and continuity strategy reflect the impact of the data quality within the scheme.</li> <li>▶ Evidence of service provider agreements that include provisions, roles, responsibilities and source of funds for resolving errors that impact members.</li> </ul>

123. In respect of contributions, we are more likely to be satisfied where the master trust can demonstrate that:

Requirement	Matters more likely to satisfy TPR
Maintaining contributions <sup>51</sup>	<ul style="list-style-type: none"> <li>▶ There is a process for ensuring the master trust can accept contributions from new employers.</li> <li>▶ The scheme is able to quickly identify missing contributions and there is an effective process in place to chase them.</li> <li>▶ In the event of an employer insolvency or claim on the redundancy payment service, there is a process for reclaiming any outstanding contributions from the employer assets.</li> <li>▶ There is a process for rectifying the missing contributions, ensuring minimal financial detriment to the member.</li> <li>▶ There is a log of missed contributions, which includes actions taken in response to the missed contributions and any member detriment noted and acted upon.</li> </ul>

50 Paragraphs 4 and 10 of Schedule 4 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

51 Paragraphs 1 and 4 of Schedule 4 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

124. We expect there to be robust processes in place for the recruitment of trustees and others, and are more likely to be satisfied where:

Requirement	Matters more likely to satisfy TPR
Trustee recruitment and standards <sup>52</sup>	<ul style="list-style-type: none"> <li>▶ It is clear who is responsible for the recruitment and selection process and the input that is required from other parties.</li> <li>▶ It is understood which skills and competencies need further development on the trustee board as a whole, and how this is monitored over time.</li> <li>▶ There is a succession plan in place to maintain the skills and competencies needed by the board.</li> <li>▶ The principles for determining trustee remuneration are assessed and agreed.</li> <li>▶ Fitness and propriety is assessed on an ongoing basis, along with any potential conflicts of interest and how these are managed or resolved.</li> <li>▶ A resignation and removal policy is in place which provides clarity on who can remove a trustee, under what circumstances and the steps for doing so.</li> </ul>

52 Schedule 4(5) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.



125. We expect there to be robust processes in place for how the trustee body will govern itself and we are more likely to be satisfied where there is evidence that the trustees understand and have documented:

Requirement	Matters more likely to satisfy TPR
Trustee governance <sup>53</sup>	<ul style="list-style-type: none"> <li>▶ The frequency of trustee meetings and under what circumstances this may change.</li> <li>▶ The circumstances where extraordinary meetings may be called and how.</li> <li>▶ Expectations of trustees in preparing for meetings and actions needed in between them.</li> <li>▶ Who has responsibility for setting the agenda and frequency for trustee meetings and who else is consulted in the development of an agenda (for example trustees, strategist, funder, advisers).</li> <li>▶ Standing agenda items.</li> <li>▶ The numbers of trustees required to be present for the trustee board to be considered quorate.</li> <li>▶ The extent to which the trustee can influence or direct scheme strategist and funder in making decisions which may have material consequences for the business.</li> <li>▶ It is clear who is able to make a decision in a scenario where the interests of the strategist and funder may be in conflict with the interests of scheme members. In this scenario there should be a clear process for trustees to make known and record their views and decisions.</li> <li>▶ There is a process for trustees to be notified of breaches and a corresponding process for monitoring breaches of the law and determining whether they are reportable to TPR<sup>54</sup>.</li> </ul>

53 Paragraphs 5 and 9 of Schedule 4 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

54 Section 70 Pensions Act 2004. Also see Code of Practice no: 1.

126. To operate a master trust effectively, it is critical that service providers are appointed correctly and monitored so they meet the needs of the scheme. We expect there to be processes in place to support this and are more likely to be satisfied where:

Requirement	Matters more likely to satisfy TPR
Managing service providers <sup>55</sup>	<ul style="list-style-type: none"> <li>▶ Service providers are assessed in advance of appointment, including access to due diligence carried out as part of the appointment process.</li> <li>▶ Performance indicators were agreed on appointment and there is accountability within the service provider for ensuring these are met with escalation points. This should include a process for managing investment advisers and recording decisions taken.</li> <li>▶ These performance indicators are considered regularly by an appropriate person, outcomes are recorded and all actions are allocated and tracked.</li> <li>▶ 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).</li> <li>▶ Trustees can demonstrate how they establish that their service providers are fit and proper and the criteria and methodology for doing so. This may include evidence of the checks carried out by service providers on new staff and how tender processes are operated.</li> <li>▶ The role of the trustee board, strategist and funder is clear if a decision is needed to replace any service provider.</li> <li>▶ There is a clear process for ensuring information relating to the performance, evaluation and ongoing fitness and propriety of service providers, including any issues or concerns, is brought to the attention of the trustees in a timely manner.</li> <li>▶ Trustees can demonstrate they understand and are familiar with the contracts/agreements (and any impacts on service/ability to act) in place with all service providers to the master trust. There should also be a written process documenting how these can be updated and agreed.</li> </ul>

55 Schedule 4(6) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

127. Risk management is central and fundamental to the good governance of a pension scheme and in this area we expect to see evidence of how this is co-ordinated between the trustees, strategist and funder. In order to be satisfied that the master trust is operated effectively we expect to see evidence that:

Requirement	Matters more likely to satisfy TPR
Risk management <sup>56</sup>	<ul style="list-style-type: none"> <li>▶ There is an ongoing process for the identification, measurement, monitoring, prioritisation and resolution of risks, including investment risks.</li> <li>▶ The scheme strategist has considered and documented actual and perceived risks to the delivery of the business plan and has documented mitigations or processes for monitoring and managing each of these risks.</li> <li>▶ There are appropriately skilled individuals taking responsibility for the management of risk monitoring against the business plan, and those individuals have access to the necessary management information and intelligence to properly carry out this task.</li> <li>▶ Information and relevant data is regularly (at least quarterly) received from the responsible parties (funder, strategist, administrator, investment manager etc) to enable the risk register to be properly updated.</li> <li>▶ The trustees have documented how issues identified through risk management will be managed to resolution, including processes for allocation of owners and a responsible party for monitoring the resolution of issues in between trustee meetings, particularly if the resolution is the responsibility of the scheme administrator, strategist or funder.</li> </ul>
Risk register	<ul style="list-style-type: none"> <li>▶ There is a risk register to support the ongoing monitoring of risks and it has been considered and agreed by the scheme strategist, funder and trustee board.</li> <li>▶ 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.</li> <li>▶ An annual review is conducted to ensure that there have been no additional risks arising which should be included on the risk register.</li> </ul>

56 Schedule 4(7) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

128. We expect to have evidence that the master trust has adequate staffing levels and are more likely to be satisfied where:

Requirement	Matters more likely to satisfy TPR
Planning resources effectively <sup>57</sup>	<ul style="list-style-type: none"> <li>▶ All key administration tasks, including the timely sending of notifications and documents to us, are fully documented, with detailed end-to-end processes.</li> <li>▶ These process documents and maps are subject to regular review, particularly after system or process change to ensure human resources allocated remain sufficient.</li> <li>▶ Key resources, with the necessary skills and experience to deliver the objectives in the business plan, have been identified and there is a plan in place to ensure continuity of service.</li> <li>▶ There is awareness of the timeframes required to bring new human resource onboard and what contingency is in place to mitigate any under-resource due to increase in work volumes or the loss of staff.</li> </ul>

57 Paragraphs 1, 4, 9 and 10 of Schedule 4 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

129. Providing members with the tools they need to understand their scheme and engaging with the trustees and strategist is an important part of scheme governance. We are more likely to be satisfied where:

Requirement	Matters more likely to satisfy TPR
Communicating with members <sup>58</sup>	<ul style="list-style-type: none"> <li>▶ There is a communication plan in place dealing with how to improve or maintain member engagement with the master trust.</li> <li>▶ The communication plan covers the methods that will be used to improve/maintain member engagement. This should include the standards for and timing of regular and scheduled communications with members. There is a process to ensure members receive timely investment information.</li> <li>▶ There is a process for members' views to be heard by the trustees at board level.</li> <li>▶ Trustees and the strategist respond to member feedback, and take appropriate action.</li> <li>▶ The communication plan includes provision for regular reviews of effectiveness, including updates to cover changes to the scheme and/or membership profile.</li> <li>▶ There are processes in place to identify issues and gather feedback from members.</li> <li>▶ There are processes in place for escalation of issues or complaints to the relevant decision-maker and to resolve the root cause of the issue.</li> </ul>

58 Schedule 4(11) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

# Continuity strategy

## Need to know

A continuity strategy sets out how members' benefits will be protected following a triggering event (see 'terms used' below).

The strategy should be a high-level but wide ranging and flexible document, providing the framework for identifying key actions, decisions and owners of actions required to deal with a triggering event period. It needs to set out the principles by which decisions will be made, the timescales over which this will take place and how the costs of continuing to operate the master trust and resolve the triggering event will be paid for.

A continuity strategy must also set out a statement of all levels of administration charges. Costs and charges set out in the continuity strategy must be reflected in the business plan and financial sustainability calculations.

## Evidence required

The continuity strategy must be submitted as part of the authorisation application, and approved by each scheme funder, scheme strategist and scheme trustee.

The statement of all levels of administration charges should be included as part of the continuity strategy as a single document, or provided as a standalone document in an electronic format that is Excel compatible with clear data labels.

There is nothing preventing the scheme strategist from including the continuity strategy as part of the master trust's business plan. Where they choose to do this, the continuity strategy should be a clearly identifiable and distinct part of the wider business plan.

continued over...

## Terms used

**Triggering event:** A triggering event<sup>59</sup> may indicate that a master trust cannot continue to operate. It must be reported to us and means that a master trust cannot increase or introduce new member administration charges<sup>60</sup> or take on new employers.<sup>61</sup>

**Continuity option one:** The decision that members' interests are best served by securing their benefits in another master trust, so the members will be transferred out and the scheme will wind-up. A scheme that is not-authorised, or is de-authorised, will have to follow this option.

**Continuity option two:** The decision that a triggering event can be resolved and the normal operations of a master trust resumed.

**Additional charge:** This relates to an administration charge for advice, service or information provided to a member, including where a member requests a transfer to another scheme. Examples include: charges for copies of annual benefit statements, transferring to another scheme or purchasing an annuity, or for non-statutory CETV requests.

**Third party charge:** An administration charge imposed on or in respect of a member by a person other than the trustees, for example the cost of financial advice.

**Discounted levels:** Where a lower level of administration charge applies to members in particular circumstances, including members from a particular employer or to a member according to the value of the member's rights in the master trust.

**Charge structure:** The type of charge structure(s) used. Includes charges relating to a single percentage charge of funds under management, percentage of contributions, flat fees or a combination charge structure.<sup>62</sup>

**Bespoke pricing model:** Where the charge level and charge structure is determined according to the unique characteristics of (or factors relevant to) each new employer or member group.

59 Section 21 Pension Schemes Act 2017.

60 Section 33 Pension Schemes Act 2017.

61 Section 32 Pension Schemes Act 2017.

62 Regulation 5 The Occupational Pension Schemes (Charges and Governance) Regulations 2015.

130. To be authorised, a master trust must satisfy us that it has an adequate continuity strategy, setting out how members' interests are to be protected if a triggering event occurs in relation to the scheme.<sup>63</sup> The continuity strategy, and any revisions to it, must be prepared by the scheme strategist and approved by each scheme funder, any other scheme strategist and the trustees.<sup>64</sup> The continuity strategy must be provided to us in writing, and within three months in the case of the strategy being revised.
131. An adequate continuity strategy will allow the trustees to identify and carry out the immediate steps needed to comply with triggering event requirements, while ensuring members' benefits are protected and, where relevant, employers can continue to meet their automatic enrolment (AE) duties uninterrupted.
132. We expect the continuity strategy to show how the scheme strategist, trustees and scheme funder will ensure that the scheme continues to operate as usual during a triggering event period, including how its services will be maintained. It must also set out information on the key steps<sup>65</sup> trustees will need to take in deciding which of the continuity options to pursue and how members' benefits will be protected.
133. The continuity strategy must also include a statement on all levels of administration charges<sup>66</sup>, providing transparency of the scheme's charging structure. The costs incurred as a result of resolving a triggering event are not to be passed on to members and the statement on the levels of administration charges is important in demonstrating how these costs will be met without increasing or imposing new charges on members.
134. We set out more detail on what it means to produce an adequate continuity strategy below.

63 Section 5(3)(e) Pension Schemes Act 2017.

64 Section 12(3) Pension Schemes Act 2017.

65 Regulation 12(1)(a) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

66 Section 12(4),(5) Pension Schemes Act 2017 and Regulation 11 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.



## Continuity strategy: information requirements

135. The law sets out the information that must be included in the continuity strategy<sup>67</sup> and extends to a number of matters that the scheme strategist, trustees and scheme funder must have considered in order to be adequately prepared to protect members through the course of a triggering event period.
136. In providing adequate information, we do not expect the level of detail in the continuity strategy to be exhaustive. The strategy should retain enough flexibility to allow the trustees to tailor their approach in response to a specific triggering event that may occur. It should also set out sufficient detail to enable the calculation of the costs identified for the costs, assets and liquidity plan (CALP).<sup>68</sup>
137. The continuity strategy should provide the high level principles and framework for identifying key actions, decisions and owners of actions required to deal with a triggering event, including how the scheme strategist, trustees and scheme funder will:
- a. be adequately prepared in case of a triggering event occurring
  - b. continue to operate the master trust throughout the triggering event period
  - c. determine which continuity option to pursue
  - d. meet the costs of dealing with a triggering event without increasing charges to members.

<sup>67</sup> Regulation 12 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

<sup>68</sup> See paragraph 248 of this code.

## Being adequately prepared in case of a triggering event

138. The scheme strategist, trustees and scheme funder should have considered the potential risk and impact to members and employers using the master trust for their AE duties in case a triggering event occurs.
139. The strategy should outline any prescribed condition in the master trust's deed and rules that would automatically cause a triggering event for that master trust.
140. We expect the continuity strategy to set out whether certain triggering events are more likely to occur in relation to their master trust. However, trustees should consider whether there are other relevant triggering events that put the master trust at risk of failure and where it would be necessary to pursue one of the continuity options.
141. The continuity strategy must include the main actions, decisions and their owners, along with the processes and timescales that apply for dealing with a triggering event. We are more likely to be satisfied where the chain of command for making decisions is clear, showing where decisions can be delegated in the absence of a key decision-maker.
142. The continuity strategy should outline the principles for identifying and managing conflicts of interest that may arise following a triggering event.
143. We expect the continuity strategy to set out the role/ function, or named person, who will be accountable for producing the implementation strategy, including how any internal approvals will be obtained.
144. The continuity strategy should set out how the scheme will comply with the statutory duties that arise during a triggering event period, including the prohibition on accepting new employers to the scheme and the prohibition on increasing, or adding new, administration charges.
145. The law requires certain persons to notify both us and the employers following a triggering event.<sup>69</sup> We expect the continuity strategy to set out how these notifications will be managed in line with statutory timeframes that apply.

<sup>69</sup> Section 22 Pension Schemes Act 2017.

## Continuing to operate the scheme during a triggering event period

146. When considering whether members' interests are adequately protected, we will take into account the extent that the scheme strategist, trustees and scheme funder have made arrangements to ensure the master trust can continue operating during the triggering event period. This includes how the trustees will maintain the usual day-to-day services involved in running the master trust, including, but not limited to:
- a. maintaining compliance with ongoing statutory duties
  - b. maintaining up-to-date member records
  - c. handling investments
  - d. recovering outstanding employer and member contributions
  - e. continuing to pay benefits for members already in retirement
  - f. maintaining administration of the scheme
  - g. retaining access to service providers providing investment, legal, audit and accounting advice.
147. The continuity strategy should include a summary of any arrangement or provision provided for under any contract for service that allows core services to continue during a triggering event period, for example – any contractual arrangement for a service provider to continue providing services for a specified period of time, including how these costs will be met.
148. Depending on the circumstances of the triggering event, it may be necessary to suspend the operation of certain services in order to protect members. The continuity strategy should set out how this can be achieved quickly, taking into account any limitations posed by manual and/or automated systems and processes.
149. To ensure key decisions can continue to be met throughout the triggering event period, the continuity strategy should summarise how any existing arrangements for appointing key roles and advisers can be achieved quickly to replace any roles that are left vacant, for example the role of a trustee or scheme strategist.

## Deciding which continuity option to pursue

150. The continuity strategy should provide the framework and key steps setting out how the trustees will decide which continuity option to pursue.
151. We are more likely to be satisfied that there is an adequate continuity strategy in place where it contains evidence that the matters below have been considered in conjunction with the general requirement to address how the interests of members will be protected.

## Continuity option one: winding up and transferring out

### Issues to consider when pursuing this option

152. **Selecting a trustee 'default receiving scheme'**
- a. How the trustees will seek to secure a new default receiving scheme, including how members' interests will be considered.
  - b. Whether they intend to seek financial or legal advice, estimated costs and how this will be met.
  - c. How they will identify a default scheme that is aligned, as much as possible, to the master trust's current SIP.
  - d. Ensure that the receiving scheme is AE compliant (where appropriate).
  - e. Details of any due diligence they will carry out before selecting a scheme.
  - f. Details of how they will secure benefits for members already in retirement/ decumulation, including draw-down.
153. **Communicating with members and employers**
- a. A timetable of how they will ensure statutory notices to members and employers<sup>70</sup> will be complied with, including estimates for costs and how they will be met.
154. **Data cleansing and member tracing exercises**
- a. The approach for identifying and rectifying any data issues, including how they will conduct tracing member exercises, an estimate of costs and how they will be met.
  - b. The approach and effort will largely be determined by how sufficient the systems and processes are, so should be proportionate.

70  
Schedule 5 of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

### 155. How assets will be reconciled at scheme and member levels

- a. The approach for ensuring there are sufficient assets to cover members' benefits.
- b. How the trustee will deal with any unallocated funds, setting out a summary of any conditions or limitations in how these funds can be used.
- c. How the trustee plans to manage CETV calculations for members and ensure these are done on time.
- d. How the trustee will deal with any policies held in the name of the trust.

### 156. Dealing with investments (including costs)

- a. A summary of the approach taken in disinvesting or transferring appropriate assets to the receiving scheme and, in particular, how they will deal with non-market traded assets.
- b. The timescales and arrangements in disinvesting – for example where they need approval, or need to follow a specific mechanism in line with any contract with the investment provider.
- c. Whether they will look to seek investment advice.
- d. A summary of costs and impacts of disinvesting, for example costs of exit fees, early redemption penalties or costs for advice. They should set out how these costs will be met.

### 157. How members' assets and personal data will be transferred

- a. Clarify who owns the records/ has control and right to transfer records (relevant to the use of third party administrators). Include the relevant summary of clauses under contract.
- b. Summarise any requirements on transfers, as set out in the scheme deed and rules.
- c. Provide a timetable for accepting the choice of alternative default scheme from the employer, or from the member, including when contributions will cease and when the transfer takes place.<sup>71</sup>
- d. Outline how trustees will ensure the transfer is secure.
- e. Provide details of any quality controls/ checks to ensure the integrity of data has been retained on transfer.

71  
Schedule 5 of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

### 158. Ensuring adequate resources

- a. State how trustees will retain and pay for continuance of service providers, including access to professional advice, for example legal, audit, accounting.
- b. Set out how they will handle spikes in work volumes, including handling increases in the number of member and employer queries.
- c. Provide details of any preferred provider or supplier list.
- d. Set out any contingency to facilitate the above steps if unable to retain service providers.
- e. Summarise any termination clause, and transitional arrangements, for ceasing relationships with service providers.
- f. Provide plans on handling any changes to payment terms by a third party provider, for example changes to the date when invoices become due for payment.
- g. Set out how they will ensure that they will have the funds to meet financial obligations when they fall due, including those relating to staff, property, leases, software and systems.

## Continuity option two – resolving a triggering event

### Issues to consider when pursuing this option

#### 159. Identifying options for resolving a triggering event

- a. Whether the continuity strategy includes a summary of any potential mitigation options that may be available to the trustees for resolving a certain triggering event. For example, the ability to secure new funding or identify contingent assets.
- b. Consider whether they have the option to replace a scheme funder who is able to financially support the master trust, if relevant.
- c. Whether they will need to seek legal or professional advice and have set out how these costs can be met.
- d. If there is any other scheme-specific event they are aware of that would put the scheme at risk, consider how they may resolve this.

### 160. Communicating with members and employers

- a. Set out whether they intend to engage with members and employers in considering options for resolving a triggering event and if so, how and when they will communicate with members/employers, including how the costs of engagement will be met.

### 161. Timescales for resolving the event

- a. Set out clear timescales for resolving the event using any of the mitigation options identified as being available for the master trust.
- b. Provide any critical milestones, setting out the maximum time period they are able to seek to resolve an event before switching to continuity option one.
- c. Set out a contingency plan to cover the costs of resolving an event, should the resolution exceed the expected timeline.

162. When producing the continuity strategy, we expect the scheme strategist to set out whether there are certain triggering events that are more likely to result in the trustees pursuing a transfer and wind up (continuity option one), or resolving the triggering event (continuity option two) for their master trust.

163. They should also include the rationale for any preference, highlighting any conditions or dependencies that apply before the trustees are able to formally decide on which option to pursue – a dependency may include, for example, the intention to seek legal advice before making a decision.

## Meeting the costs of dealing with a triggering event

164. The information in the continuity strategy should provide enough detail on the key activities and steps in dealing with a triggering event to provide a realistic estimate of costs for complying with the continuity strategy.

165. The costs should be set out in the business plan and will be used as part of the overall assessment on whether the scheme is financially sustainable – particularly in demonstrating that the scheme has adequate reserves to meet the costs of continuing to operate the scheme, in addition to costs in pursuing the relevant continuity option.

## Continuity strategy: Statement of administration charges

166. The additional costs incurred following a triggering event should not be passed on to members, and trustees are prohibited from increasing or imposing new administration charges on members during a triggering event period.<sup>72</sup>
167. The law requires the scheme strategist to set out in the continuity strategy all levels of charges for each charge structure<sup>73</sup> for the current scheme year as this applies to each arrangement, including the default arrangement. This must also include any additional or third party charges and any discounted levels that apply, including the reasons for imposing those charges<sup>74</sup> or providing those discounts.
168. For the purpose of assessing whether the scheme meets or continues to meet the authorisation criteria, we expect the information to be provided to us in an electronic format, which is compatible with Excel. This should include appropriate data labels that clearly show the arrangement, charge structure and charge levels that apply.
169. We do not expect the statement to provide a line-by-line breakdown for specific charges that apply to every employer and member within each arrangement. However, the statement should clearly set out all levels of charges that apply to each charging structure for every arrangement. Each charge level identified should be mapped against:
- a. the relative size of assets under management (AUM) - this may be expressed as a total monetary value, or as a percentage of total assets for that arrangement
  - b. the total number of members subject to that charging level
  - c. the total number of employers subject to that charging level.
170. Where a master trust adopts a bespoke pricing model, there is likely to be greater variability in the charge levels and charging structures that apply to each arrangement, reflecting the pricing differences between employer and member groups.
171. The statement must also set out whether or not any additional, third party or other types of administration charges apply. Where they do apply, the statement should provide the reasons for imposing them, including a description of the charge, along with a summary of any costs that the charge seeks to cover.

72  
Section 33 Pension Schemes Act 2017.

73  
By charge structure, we mean those relating to a single percentage charge of funds under management, percentage of contributions, flat fees or a combination charge structure.

74  
Regulation 11 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.



172. Any discount levels should also be included in the charges statement, along with a description and summary of the reasons for each discounted level. This may include, but is not limited to, the following factors:
- a. Contribution levels.
  - b. Fund value.
  - c. Size of employer (number of employees).
  - d. Any discount for bundled services.
  - e. Any bespoke or tailored services offered to members/ employers.
173. The charges statement should set out the charge levels applicable for the current scheme year in which the continuity strategy is prepared and must be annualised.
174. Where a master trust sets the charge levels and charging structure on a bespoke basis, we expect the charges statement to set out the key principles or framework used to set the charging level and structure for new business.
175. For the purpose of being satisfied whether the continuity strategy is adequate, our focus will be on the extent to which the charge levels provided are aligned with the scheme's business strategy and whether they are consistent with the financial information and assumptions provided in the business plan.
176. A prohibition on increasing charges to meet certain costs also applies to the receiving scheme, where continuity option one is being pursued. The receiving scheme is required to provide us with a statement of charges in the same manner and form as the requirement above.<sup>75</sup> Further duties apply to receiving schemes in demonstrating compliance with prohibition of charges.

75  
Section 24(5)(i) of the Pension Schemes Act 2017 and Regulation 20 and Schedule 5 (13) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

# Scheme funder

## Need to know

The scheme funder must be able to demonstrate that it is able to provide the necessary support to the master trust as and when required. The scheme funder must be a corporate body or a partnership that is a legal person and only carries out activities related to the master trust unless exempt.

A master trust may not have a scheme funder, or may have more than one scheme funder.

As part of an authorisation application, a scheme funder may request an exemption allowing them to carry out other activities not directly related to the master trust.

## Evidence required

A scheme funder must provide accounts and other financial information to demonstrate their ability to meet certain costs of the master trust. Additional financial and other information will be required for scheme funders who wish to carry on other activities not directly related to the master trust.

Mixed benefit schemes established before October 2018 with more than one scheme funder – each of which is a participating employer – are not required to provide their accounts and other information but the trustees will be required to set out what alternative means the trustees have for meeting certain costs of the master trust.

## Terms used

**Mixed benefits scheme:** a master trust providing both money purchase and non-money purchase benefits, whether sectionalised or not.

**Costs, assets and liquidity plan (CALP):** part of the business plan which summarises the costs of running and the financial resources available to the master trust.

## **Scheme funder: activities undertaken**

177. The scheme funder must only carry out business directly related to the master trust, unless exempted. This will not be possible in every case, for example where the master trust is one element of a wider workplace pension product line. In this case, the current or prospective scheme funder(s) may apply for an exemption from the requirement to only carry out activities directly related to the master trust.
178. Examples of activities that might be directly related to the master trust include in-house administration or investment services. We may also regard services to participating employers as being directly related to the master trust, where these are part of the product offering of the scheme as a whole. An example of this might be an AE assessment service.
179. However, where services to the scheme or participating employers are also offered to other schemes and non-participating employers by the scheme funder, it is unlikely that they would still be regarded as activities directly related to the master trust.
180. Where a scheme funder only carries out activities in relation to the master trust, but is part of a wider group, we may consider the financial strength of the group as a whole and the relationship of the scheme funder with the wider group.

## **Requesting an exemption from only carrying out activities relating to the master trust**

181. A current or prospective scheme funder may, as part of the application for authorisation, request an exemption from only carrying out activities that relate directly to the master trust. Reasons for this may include a situation where their activities are too interwoven into the wider business of the scheme funder to economically disentangle. There may also be cases where splitting out the master trust scheme funder from other group operations reduces the security of the scheme funder or increases costs to members.
182. We will expect the scheme funder to provide evidence to support their rationale for an exemption, which should include details of the financial support the scheme funder provides to the master trust. Examples of this might include legally binding agreements, cash held in a bank account, or escrow, with suitable controls over its use.
183. We will be more likely to be satisfied that the scheme funder should qualify for the exemption where it is able to provide clear and credible evidence of its ability to support the master trust.

184. A scheme funder has to provide a description of other activities it carries out and we will consider the potential impact that each activity might have on the overall ability of the scheme funder to support the master trust.
185. The scheme funder must also provide the following financial information:
- a. Actual turnover, gross margin, overheads and operating profit for the previous 12 months.
  - b. A cash flow statement for the previous 12 months, including any undrawn overdraft facility or revolving credit facility.
  - c. Forecast and actual profit and loss for the previous 12 months.
  - d. Budget for the year to date and any variation against that budget.
  - e. Cash resources.
  - f. Cash flow forecast for the following four quarters.
  - g. Operating costs.
  - h. The extent to which any of the scheme's costs are covered by an insurance policy or policies.
  - i. The source of funds for maintenance of any such insurance policy.
  - j. Inter-company loans and other forms of funding.
186. Where the scheme funder is part of a corporate group structure, this information should also be provided at a level appropriate to the position of the scheme funder within the group. So, where the funder is a subsidiary, this information should be provided in respect of the relevant parent or where they are wholly or partly funded by a third party. We will, however, request further information about the group if this is considered appropriate. We may choose to investigate other group companies if we feel their operations or liabilities may affect the master trust, or limit the ability of the scheme funder to support it.
187. If a current or prospective scheme funder is unable to provide some or all of the financial information referred to in the paragraphs above, it must provide us with an explanation as to why this is not possible in respect of each item that it is unable to provide.

188. The scheme funder must be able to support the master trust in the way required for authorisation and we will expect an application for an exemption to include consideration of any significant risks to which the scheme funder is exposed and its strategy for mitigating them. This is particularly relevant where, for example, the revenues of the scheme funder are heavily dependent on a single product, or relate to a highly volatile market.
189. We are less likely to be satisfied where the scheme funder is indicating that their business cannot provide adequate disclosure of its various cost centres, or where these are drawn widely to encompass many activities. Similarly, we would not expect an established scheme funder to be relying on significant levels of debt or loans as a way to finance its operation.
190. In some instances, we may request additional information in order to be satisfied that the scheme funder is giving, and is capable of giving, adequate financial support to the master trust scheme. Scheme funders may also choose to provide additional information that supports their application. We are not obliged to consider any information that we have not requested, but will not reject such evidence unreasonably.
191. Where a scheme funder is of sufficient size and strength, it may be possible to put in place a suitable financial vehicle or contract guaranteeing the master trust access to sufficient funds as it requires. This will need to, at the very least, ring fence and guarantee the necessary resources for the financial sustainability of the master trust.
192. If, after authorisation, the financial information that was used to support an exemption changes, this is a significant event<sup>76</sup> and must be reported to us.
193. If, after authorisation, the scheme funder makes changes, or proposes to make changes that mean it would no longer carry out only master trust business, this is not automatically a significant event. However, it is likely to lead to a change in the business plan and should be reported as such. Even if a change in the business plan is not required, the scheme funder should notify us as soon as is practical to ensure we remain satisfied that the scheme funder continues to meet the authorisation criteria.

76  
Regulation 14(i) of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

## Scheme funder: Accounts

194. Audited accounts provide us with a source of information about the financial health of the scheme funder. We expect the scheme funder to provide us with their accounts as soon as possible after they are signed. We may request the most recent accounts of the scheme funder in the scheme's supervisory return, or at any other time.
195. Unless exempt from the requirement to provide accounts, the scheme funder must provide full audited accounts prepared in accordance with the provisions in the Companies Act. This will be the case even where an exemption would normally apply for small companies, micro companies, subsidiaries, overseas companies or limited liability partnerships.
196. If the scheme funder is a charity they must produce accounts in accordance with the Companies Act, regardless of any exemptions that might otherwise apply.<sup>77</sup>
197. Scheme funders based overseas must submit audited accounts in accordance with specified provisions of part 16 of the Companies Act (audit) where no other requirement to produce audited accounts exists.<sup>78</sup>
198. The scheme funder is required to prepare the accounts on a going concern basis. We would expect the auditor to comment if the scheme funder is not a going concern or is receiving financial support from another party. Where a scheme funder's accounts are qualified or are subject to an emphasis on a matter that we consider significant or relevant, we will consider whether we are satisfied that the scheme funder is able to support the master trust.
199. In addition, if a scheme funder is wholly or partially funded by a third party, the scheme funder will have to disclose this and the accounts of the third party will have to be submitted to us.<sup>79</sup>
200. There may be a number of reasons that a scheme funder is unable to provide audited accounts at the time that it becomes the funder of a master trust, either before or after authorisation. In this situation, the scheme funder must set aside assets to the value of at least 50% of the sum required by the master trust's financial sustainability modelling, or the whole value of the financial reserves identified in the costs, assets and liquidity plan (CALP) if this is less. The amount set aside will have to be held in a separate trustee deposit account with a deposit taker.<sup>80</sup>
201. The sum set aside must be deposited within three months of the scheme funder taking on their role and held in the trustee deposit account, unless required for a triggering event, until such a point as the scheme funder can provide audited accounts.

77  
Regulation 9(1) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

78  
Regulation 9(4) and (5) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

79  
Regulation 9(10) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

80  
Regulation 9(2) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

# Financial sustainability

## Need to know

Master trusts must be able to demonstrate that they have access to sufficient financial resources to cover their set up and running costs, and also financial reserves sufficient to cover the costs arising from a triggering event. We will expect schemes to provide relevant evidence to support their calculations of running costs.

Schemes may use either a basic or detailed method when calculating the amount required for their financial reserves. The financial sustainability assessment will take account of the evidence presented in relation to systems and process, the continuity strategy and the business plan.

## Evidence required

The evidence required will depend on the circumstances of the scheme and will include the CALP and any other evidence necessary to demonstrate a scheme's financial resources.

## Terms used

**Costs, assets and liquidity plan (CALP):** Part of the business plan which summarises the costs of running and the financial resources available to the master trust.

**Financial reserves:** The financial assets available to a master trust to keep it running following a triggering event. This is the sum of the run on period costs and costs of compliance.

**Mixed benefits scheme:** A master trust providing both money purchase and non-money purchase benefits, whether sectionalised or not.

**Run-on period:** a period of between 6 and 24 months, as determined by TPR, for which a scheme must hold running costs as part of its financial reserves.

**Costs of compliance:** The element of the financial reserves required to deal with the specific costs arising from a triggering event.

**Continuity option one:** The decision that the interests of members are best served by securing their benefits in another master trust, so members are transferred out and the scheme winds up. A scheme that is not authorised, or is deauthorised, will have to follow this option.

**Continuity option two:** The decision that a triggering event can be resolved and the normal operations of the master trust resumed.

**Triggering event:** A triggering event<sup>81</sup> may indicate that a master trust cannot continue to operate. It must be reported to us and means that during the triggering event period, a master cannot increase charges or take on new employers.

81 Section 21 Pension Schemes Act 2017.

## Financial sustainability

202. One of the key features of the Act is the obligation for master trusts to be able to demonstrate that they have access to sufficient financial resources to continue to operate. This is required because, unlike single employer schemes, there is not necessarily an immediate recourse to a sponsoring employer in the event of a scheme needing to make additional expenditure.
203. It is up to the trustees, scheme funders and scheme strategist to demonstrate that together they can meet the financial sustainability requirements.
204. Some master trusts will still maintain close links with participating employers and will be readily able to call on those employers to help provide financial resources to the scheme as required. Other master trusts may be more akin to a retail product and will rely on their own resources or those of a scheme funder when additional costs arise. This regime is intended to cover both situations, and any position in between. While all master trusts are expected to meet the financial sustainability requirements, there are a number of different ways in which they can do so.
205. The financial sustainability requirements are split into two parts between running costs and financial reserves.
206. Master trusts will be expected to meet both of these requirements and they are explained separately below. A master trust that is unable to meet the financial sustainability requirements may not satisfy us that it should remain authorised.
207. We expect that, over time, most master trusts will be able to move to a situation where they are able to meet the financial sustainability requirements solely through charges on members and/or participating employers. We refer to this as 'sustainable break even'.
208. As a minimum we expect to see a comprehensive business plan, with accounts from the master trust and scheme funder. We also expect master trusts and scheme funders to provide us with all the information we need to assess their financial strength. This information will vary according to the circumstances of the scheme and funder.



## **Matters we will take into account in assessing a master trust's financial sustainability**

209. In order to assess the whether the master trust satisfies us of its financial sustainability, we will take into account a wide range of documents. These include:

- a. the business plan
- b. the master trust's accounts
- c. the scheme funder's accounts
- d. the statement of investment principles
- e. the most recent chair's statement.

210. We may also require sight of, and will consider:

- a. the master trust's CALP, where this does not form part of the documents listed above
- b. where the scheme funder is an insurer or bank, evidence of any reserves held for supporting the activities of the master trust
- c. any documentary proof of support being offered by the scheme funder or funders
- d. details of any joint bank account or escrow held by or on behalf of the trustees and scheme funder
- e. for earmarked schemes, the latest accounts of the insurance company holding the ear-marked insurance policies or annuity contracts, and any group of which it is part of, where these are not already provided
- f. relevant extracts of the master trust's trust deed and rules, which govern expenses and winding up arrangements
- g. details of service contracts and insurance policies held by the trustees
- h. any other documents that the scheme can demonstrate to be relevant.

## Running costs

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

Examples include, but are not limited to the following:

- a. The costs paid to asset managers or an in-house team to manage the master trust's funds, the costs incurred to implement the investment strategy and the costs of advice taken on investments.
- b. The remuneration and overheads associated with paying trustees, and the cost of professional services commissioned by the trustees, such as audit and legal advice.
- c. The cost of scheme administration, activities associated with receiving and reconciling payments, transfers, compliance and communications to members.
- d. Any costs incurred by the scheme funder, including business development and planning, research, marketing and any dedicated support provided by the scheme funder to the master trust.

212. We expect the projected running costs to be consistent with those included in the business plan. We will also expect a scheme to factor in, where appropriate, contingencies for circumstances where those costs exceed the expected budget.

213. We do not require a master trust to maintain a reserve for running costs, although it may do so if it wishes. We will focus on the expected and realised costs and income of the master trust, the ability of the scheme to maintain those and to cover any shortfall between them.

214. Where a master trust has not yet reached sustainable break even, we will expect the business plan to provide an indication of when it can be reached – even if this is outside the period covered by the business plan. We will expect the business plan to provide details of the approach to meeting the shortfall between costs and income.

215. If there is no intention that the master trust will reach sustainable break even we will need to be assured of the funder's ability to support it in the long term, and how such an approach is appropriate and affordable.

216. Where a master trust has more than one funder, we will consider the financial position of each funder that we consider relevant. A master trust may have some funders which are more able to support the master trust than others. If this is the case, we may choose to accept any case made by the strategist or trustees for the ability of stronger 'lead' funders to shoulder a greater degree of potential costs. A single weak funder among a group will therefore not lead to an automatic failure of this criterion. We will require evidence of the legal enforceability of a debt on any lead funders.
217. Where a master trust is funded, directly or indirectly, through loans we will need to be able to assess the security, enforceability and affordability of them. Where the funder is supported by debt issuance, we will have to understand the ability of the funder to support repayment terms of the debt while maintaining support for the master trust itself.
218. If the master trust's business plan indicates that it is intending to grow through consolidation activity, it will have to demonstrate that it, or any scheme funder, is able to support any additional costs associated with acquiring, taking on and maintaining the additional members, employers and assets at the expected volumes.
219. Some master trusts may have rules or deeds of participation that impose certain financial obligations on participating employers or third parties, or on the master trust itself. Subject to their interaction with the provisions of the Act, appropriate allowance should be made for these when calculating the financial sustainability requirements.

## Financial reserves

220. The second aspect of financial sustainability relates to the master trust's financial reserves. These must be sufficient to keep it running after a triggering event and while that triggering event is resolved or the master trust is wound up and members transferred out. Because triggering events can be caused by a number of things, including the departure or failure of a scheme funder, we expect the trustees to have first call on any assets. Therefore, a trustee bank account or unallocated assets within the master trust itself are likely to be viewed as a suitable vehicle in which to hold financial reserves.
221. Any assets held by the scheme funder for the master trust's financial reserves should be ring fenced, meaning that the trustees should have first call on them. This might be delivered through a legally binding agreement, or an escrow vehicle. In all cases, we will need to be satisfied of the ability of the trustees to access the financial reserves in the event of the failure of the scheme funder.

## Calculation of financial reserves

222. The trustees may demonstrate that they have sufficient financial reserves in either of two ways:
- a. the basic method, or
  - b. the detailed method.
223. A trustee, with the agreement of their strategist and funder, may choose the simplicity of a cost per head calculation, or the detailed method.

### Basic method of calculating financial reserves

224. The basic method requires a master trust to have reserves equal to an amount per member to be set out in guidance, subject to a minimum amount. If the trustees wish to use a lower amount per member or minimum amount than that published in guidance, they will need to demonstrate why that number is appropriate as evidenced by the detailed method calculation.
225. If using this method, the trustees and strategist should state that they know of no reason why the actual value held in the financial reserves should be higher than calculated on this basis.

### Detailed method of calculating financial reserves

226. The detailed method of calculating financial reserves allows a master trust to hold a level of financial reserves that accurately reflects its own tailored calculation of the necessary costs. This will be of use where economies of scale or technology mean that the trustees believe that the master trust can hold a lower amount than under the basic method. Master trusts using this method should expect us to ask additional questions about the assumptions used in calculations before we are satisfied.
227. We expect the calculation of the necessary reserves to be made on a prudent basis. The trustees, strategist and funder will have to revisit their calculations to ensure that they contain appropriate cost estimates. This is particularly relevant where the membership of a master trust is growing and especially relevant where it is growing rapidly through natural growth or acquisition. We will expect to see evidence that reserves are continuously monitored and recalculated every time the business plan is revised, and at least annually.

228. The reserves calculated under the detailed method are broken into two separate strands:
- a. an amount sufficient to allow the master trust to continue to operate for a period of six months to two years following a triggering event (the run on period), and
  - b. an amount sufficient to cover the additional costs following a triggering event (the compliance costs<sup>82</sup>).

### **Detailed method: continuity options**

229. The continuity strategy must consider two possible outcomes from a triggering event; continuity option one and continuity option two (to wind up and transfer out, or to resolve the triggering event, respectively). We only expect the master trust to hold financial reserves for what the trustee and strategist calculate to be the more expensive of the two continuity options. We consider that it will normally be more expensive to wind up the master trust having first protected the members' benefits. Any master trusts that calculate that continuity option two would be the more expensive in their case will also need to provide their assessment of the costs of continuity option one.

### **Detailed method: run on period**

230. We can set the length of the run on period and our expectation is that most master trusts will need to assume a run on period of 24 months. A master trust may be able to demonstrate that a shorter period is appropriate and this will primarily depend on the projected length of time to wind up the scheme. Where a master trust is reserving for continuity option two, we may be satisfied with a shorter assumed run on period.
231. Calculating the reserves for the run on period is not necessarily a case of duplicating the calculation of annual running costs, although this may provide a satisfactory additional buffer. Following a triggering event, a scheme is unable to carry out certain activities, so cost savings might be made on sales and marketing staff for example. We would however expect reasonable allowance to be made for increases in staffing or overhead costs during the period of wind down.

82  
Section 8(3)(b)(i) of  
the Pension Schemes  
Act 2017.

## Detailed method: costs of compliance

232. While the run on costs broadly represent business-as-usual costs following a triggering event, the costs of compliance relate to the specific costs arising from a triggering event.
233. Within the calculation of the costs of compliance, we would expect the master trust to make allowance for additional spending on member communications, data cleansing and legal and accountancy advice. We also expect master trusts to make allowance for contract break clauses, together with staff termination or redundancy payments. They should also make an allowance for contracting staff who may be required to deal with additional temporary workloads, or to cover existing staff who leave their roles before the triggering event is resolved.
234. Because of provisions made in the regulations for the implementation of a transfer of members, allowance will have to be made for employers transferring their workers to pension schemes other than the trustees' chosen default. Because of this situation, we would expect a master trust to make a reasonable provision for the additional work and communication required by this activity.

## Financial sustainability: other regulators

235. Some master trusts will be closely associated with a scheme funder that is regulated by another financial services regulator, for example the FCA, PRA, or an equivalent overseas body.
236. We will take any reserving requirements imposed by another regulator into account where they are, and only to the extent they are, relevant. We may decide that a risk, while addressed under another regulator's reserving requirements, is not fully addressed under ours and therefore needs to be reserved for.
237. Where a scheme funder is regulated by a financial regulator (apart from TPR), the business plan should disclose this, and the regulators in question.<sup>83</sup> Where a scheme funder is part of a group that has overseas divisions or subsidiaries, it will not be necessary to disclose the regulators that they operate under in every case. Disclosure is only necessary where an overseas regulator has oversight of a parent, or ultimate parent of the scheme funder.
238. In order to show that a funder is reserving against a particular risk, we will require evidence that the risk is fully covered. This may extend to a legally enforceable indemnity from the master trust provider stating the extent of the protection provided. In any event, we must be assured that should the scheme funder fail or withdraw support, any reserves made for the purposes of another regulator can and will be deployed to assist the master trust.

83  
Regulation 7 and paragraph 19 of Schedule 3 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

239. Some master trusts will be part of a larger financial services group that is subject to part VII of the Financial Services and Markets Act (FSMA) in the event that it wishes to sell or transfer blocks of business. We expect the business plan to show the potential impact of this on the master trust in the event of a sale or transfer of the business. We also expect the trustees to have received an adequate assessment of the impact on the financial sustainability of any such transaction on their master trust and to have made provision for it.

### **Financial sustainability: Indemnities, insurance and compensation**

240. Some master trusts may hold insurance policies or indemnities that provide cover for certain costs. We are content to take these into account where they exist. Master trusts should consider the likelihood of any insurance paying out, and the time taken for any claim to be settled when preparing the liquidity assessment in the CALP. In the case of indemnities, we will have to be satisfied of the security, strength and enforceability of the indemnity being provided and the ability of the person providing it to deliver that indemnity.

241. Insurance may be held in relation to both running costs and financial reserves. We will have to be satisfied of the details of the policy held and specifically the provider, the policy holder, beneficiary and any limitations of the insurer's liability. If the policy beneficiary is not the trustee of the master trust, we may place less weight on the policy in assessing financial sustainability. We may also take into account the cost of any policy in assessing whether we consider that it remains a viable part of a scheme's financial sustainability.

242. In respect of set up and running costs, some master trusts may have fixed cost arrangements with service providers. Under this arrangement, certain services may be provided to the master trust, regardless of the actual costs incurred by the service provider. Such arrangements are an important way that a master trust may contain costs. If a master trust wishes us to take such an arrangement into account we will do so, but we will need to be satisfied that the master trust has taken into account any services that might fall outside of the agreement and the terms on which such an agreement might be reviewed, varied and renewed.

243. In relation to financial reserves, we may also take into account any compensation that might be payable to scheme members following a decision by the trustees to transfer members and wind up the scheme. We will need to be satisfied of the compensation provider, the basis and timescale over which compensation may be payable and be aware of any limits on the available compensation. We anticipate that all master trusts will be covered to some extent by the Financial Services Compensation Scheme (FSCS). We do not consider, however, that such cover may be offset against a master trust's financial reserving requirement. The FSCS will compensate where there has been a loss suffered by a policyholder. The objective of the master trust authorisation and supervision regime is to limit the instances of such losses, and their effect on members. If schemes consider that their treatment by the FSCS is likely to be different to other schemes, then they should draw this to our attention.

### **Financial sustainability: offsetting revenues**

244. As a master trust moves towards sustainable break even it will be producing sufficient income to increasingly offset its financial sustainability requirements. An example might be where a master trust is generating sufficient fee income to cover its running costs. Where a significant expenditure in the future remains possible, for example a large IT project, we will expect a master trust to explain how it will maintain its running costs if it is no longer achieving sustainable breakeven.

245. We will consider requests from trustees that there should be an offset made for income against the financial reserving requirement. Our decision will depend on whether the master trust is able to maintain projected levels of income above projected costs.

246. We anticipate it would be rare for us to permit a significant proportion of a scheme's financial reserves to be covered by scheme revenue or scheme income. This is because of the potential for a master trust to have to increase their financial reserves at the same time as they experience a downturn in income. Master trusts requesting an offset should consider how they would cope with this possibility.

247. The extent to which any requested offset is considered satisfactory will also depend on what a master trust does with any generated surplus and any commitments it may have regarding spending, transferring or redistributing any such surplus.



## Costs, assets and liquidity plan (CALP)

248. The objective of master trust authorisation is to protect members' benefits, and this is partly achieved by introducing a framework which gives the trusts the financial support needed to discharge benefits without cost to the members, even if support from a scheme funder has been removed. The CALP forms part of the business plan, but may be presented as a separate document. It provides us with key financial information about the master trust and its financial sustainability. We expect to see consistency between the CALP, and the other information presented by the master trust, most prominently in the business plan and continuity strategy.
249. The scheme strategist is responsible for producing the CALP, but should seek agreement from the trustee and scheme funder on its content. A scheme strategist may choose to incorporate the CALP into the business plan in such a way that information that is common between the two is only disclosed once.
250. The information contained in the CALP will inform and help to demonstrate that the master trust meets the financial sustainability requirements. For this reason it should include projections that cover the same period as the remainder of the business plan.
251. The information in the CALP is grouped into four sections:
- a. Costs in relation to money purchase benefits.
  - b. Income in relation to money purchase benefits.
  - c. Assets held to meet costs in relation to money purchase benefits.
  - d. Liquidity of those assets.
252. In addition to the information required within the CALP, we may require clarification about assumptions and levels of prudence adopted in various elements of the disclosure. Where a particular item required in the CALP is highly variable, a range should be provided together with an explanation of how this has been reached.
253. If a master trust is unable to provide a particular item, it should identify that item and explain the reasons why it is unable to supply it.

## **CALP: Costs in relation to money purchase benefits.**

254. The information to be included in the CALP in relation to the costs of money purchase benefits<sup>84</sup> is as follows:

- a. The estimated cost of running the master trust for each year of the period covered by the business plan. This should include details of any the financial and contractual arrangements between the trustees and any scheme funders.
- b. Details of any actual or potential financial liabilities arising from any contract between the trustees or scheme funders and any person providing services to the master trust.
- 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 master trust to meet those costs.

255. The cost of running the master trust for two years after a triggering event, or any shorter period determined by us, including:

- a. an estimate of the length of time needed to run the master trust in accordance with its continuity strategy after a triggering event
- b. an estimate of the monthly gross cash cost of running the master trust
- c. an estimate of the gross cash run on costs for two years after a triggering event
- d. the assumptions used in those estimates.

256. A master trust may choose to make the case for run on costs covering a period of less than two years, but not less than six months. We will consider whether this will satisfy us in relation to the specific circumstances of the master trust.

84  
Regulation 7 and paragraph 24 of the Occupational Pension Schemes (Master Trusts) Regulations 2018 provide that requirements relating to costs in relation to money purchase benefits are to be set out in the Code. These requirements therefore have a legislative underpin and must be complied with.

257. Details of the following costs, and the strategy for ensuring that the scheme's assets are sufficiently liquid to meet them as they fall due:

- a. the estimated costs of compliance shown in the continuity strategy during a triggering event period
- b. the estimated cost of closing and winding up the master trust after the transfer of assets.

258. Any provision made by the trustees and each scheme funder to fund contingent liabilities in respect of the master trust.

259. Details of the expected cash-flows into and out of the master trust, including the extent that these will come from and go to each scheme funder for every year of the period covered by the business plan.

260. 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.<sup>85</sup>

261. Details of any existing or expected borrowing by any scheme funder necessary to support the master trust, including the identity of the lender, the loan amount, the interest rate, the repayment date, and any security taken by the lender.

262. Whether the master trust requires, and has received, the sanction of the court under Part 7 of FSMA for any of its activities.

263. For master trusts, or sections of them, established on or after the commencement date, the estimated, projected or actual cost of setting up the master trust.

85 The ability of a scheme to take out a loan is limited. Where a scheme is receiving support for its activities by way of a hard or soft loan, details of this and the terms on which it is provided must be supplied to us. We are of the view that in most cases it is inappropriate for a scheme to be in receipt of a formal loan, but we acknowledge that trustees may be under an obligation to repay the scheme funder for the support it has provided to them. In these cases we will be most concerned with the ability of the scheme to meet its repayment obligations in accordance with the agreed terms.

## CALP: Income in relation to money purchase benefits

264. The following items need to be detailed<sup>86</sup>:

- The planned scale of the master trust, including milestones set at least annually and business risks from failing to meet or exceeding any of the milestones.
- The assumptions and dependencies on which the planned scale and milestones are made, together with a sensitivity analysis of those assumptions and dependencies.

265. The selected milestones can be chosen at the discretion of the scheme strategist, but should as a minimum include:

- a. the number of members accruing money purchase benefits
- b. the income from contributions paid in respect of money purchase benefits
- c. the assets under management or administration in respect of money purchase benefits
- d. the income from charges on assets under management or administration in respect of money purchase benefits
- e. the income from charges paid by participating employers
- f. the number of participating employers in any sections of the master trust offering money purchase benefits.

266. The sources of income of the scheme including the estimated income from each source for each year of the period of the business plan.

267. The principal sources of income of each scheme funder, as detailed by that company's strategic report, to the extent that that income is available to the scheme.

86 Regulation 7 and paragraph 26 of Schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018 provide that requirements relating to income in relation to money purchase benefits are to be set out in the Code. These requirements therefore have a legislative underpin and must be complied with.

268. The CALP must also include an estimate of the monthly gross income due to the master trust for two years after a triggering event, or any shorter period determined by us, with reference to:

- a. the number of members accruing or retaining money purchase benefits
- b. the income from contributions paid in respect of money purchase benefits
- c. the assets under management or administration in respect of money purchase benefits
- d. the income from charges on assets under management or administration in respect of money purchase benefits
- e. the income from charges paid by participating employers
- f. the number of participating employers in any sections of the master trust offering money purchase benefits
- g. the assumptions used in arriving at these estimates.

### **CALP: Assets**

269. Details of the assets held by the trustees and any scheme funder to meet the financial sustainability requirements<sup>87</sup>, including:

- a. a description, including values, of any haircut applied to the assets at the effective date of the CALP
- b. the percentage of the scheme's financial sustainability requirement to be met by the assets
- c. the strategy for meeting any shortfall between the master trusts income and the costs it will experience during the period covered by the business plan
- 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 master trust. This will include information about the master trust's ability to pay for services and loan interest as those liabilities fall due
- f. the text of any provision in the trust deed and rules which provides that trustees, scheme funders or employers must pay the amounts shown in the costs of money purchase benefits section of the CALP

87  
Regulation 7 and paragraph 25 of Schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018 provide that assets and liquidity in relation to costs are to be set out in the Code. These paragraphs therefore have a legislative underpin and must be complied with.

- g. the text of any provision in the trust deed and rules which empowers trustees to change the rule about who is liable to meet the costs of the scheme
- h. where a master trust is providing non-money purchase benefits, details of how any debt for which the employers may be liable under section 75 of The Pensions Act 1995 (deficiencies in assets) is to be apportioned in accordance with section 75A of that Act (deficiencies in assets: multi-employer schemes)
- i. 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.

## CALP: Liquidity

270. The reserves held by a master trust will be needed at various times and can have different levels of liquidity according to the costs they are addressing. For example, the costs held for immediate short term running costs should have high levels of predictable liquidity.
271. A master trust should not need to call upon the assets held in its financial reserves, but this does not mean that their liquidity can necessarily be lower. A triggering event can be unexpected, and when it occurs it can lead to immediate costs arising from, for example, communication requirements. However, some holdings of less liquid assets can be tolerated because of the timescale over which the financial reserves will be spent.
272. Master trusts should consider the liquidity of the assets they hold, to ensure they are able to meet costs as they arise following a triggering event. For example, if following a transfer and scheme wind up, an immediate expenditure will arise when issuing employer and member communications. Other costs may be incurred on a more regular basis but at a lower level, allowing for less liquid assets to be held.
273. As a general rule, we do not consider directly held physical assets, for example property, to be suitable for use as a financial reserve.
274. It is important that the trustees and strategist assess the different levels of liquidity that they will need throughout the period covered by the business plan and continuity strategy. If a scheme funder operates more than one master trust, the funds allocated to each scheme should be separately identified to TPR.<sup>88</sup> This may mean that the assets are held in different ways, depending on how the funding obligations are determined.

88  
Regulation 6 and paragraph 5(d) of Schedule 2 to the Occupational Pension Schemes (Master Trusts) Regulations 2018.

275. The way funds are held in each master trust is likely to be different and in keeping with the way it is funded, operated and its ultimate business objectives. The haircuts described below should influence the choice of assets that a master trust uses for its financial reserves.
276. We are unlikely to be satisfied by a master trust with cash, or near cash, assets that are:
- a. less than 25% of projected running costs (if reserved for), or
  - b. less than 15% of the calculated financial reserves.
277. Schemes should be able to demonstrate the high liquidity of at least half of their projected running costs for a period of twelve months from the date of their most recent business plan. We will publish guidance if we believe there are specific examples of asset holding that have been unsatisfactory.

### **Financial reserves: Haircuts**

278. A haircut is a discount to the current value of an asset that is applied for the purpose of calculating the value of assets to be held in the CALP. The reason for imposing this measure is that it may be necessary for master trusts to dispose of assets held in financial reserves at a point when the relevant market for that asset has taken a downturn. For this reason, we will impose a haircut on most assets held by the scheme.
279. Because a master trust's financial sustainability is measured in relation to a period of time, there are different haircut values for each asset depending on the timescale over which it is expected to be spent. This will typically result in more volatile assets having a greater haircut over short periods, and a lesser haircut over longer timescales. This reflects the greater time that a master trust will have to liquidate that asset, therefore returning a better value.
280. Unless otherwise stated, we assume all assets are denominated in pounds sterling. Where this is not the case, we will expect a master trust to have made an assessment of the currency risk that it is exposed to, or to have included in its CALP the costs of hedging activities.
281. All marketable assets held as part of the financial reserves should be admitted to trading on regulated markets. We will not expect to see a significant level of non-marketable or illiquid assets held in financial reserves.
282. We will expect that any debt instruments held by the scheme within its financial reserves to be investment grade as determined by a recognised ratings agency.

Asset class	Description	Haircut			
		Running costs	Financial reserves for costs arising		
			within 1 month	between 2 and 12 months	>12 months
of a triggering event					
Scheme funds	Assets that are not attributable to members or 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 scheme funder guarantee	Legally enforceable guarantees issued by scheme funder or parent company which are not considered as debt instruments	0%	0%	5%	5%
Scheme funder guarantee	Legally enforceable guarantees issued by scheme funder or parent company which are not considered as debt instruments	0%	25%	10%	10%
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 the purposes of 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%

continued...



Asset class	Description	Haircut			
		Running costs	Financial reserves for costs arising		
			within 1 month	between 2 and 12 months	>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 assets 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 costs of a triggering event	–	90%	3%	6%
Loans	Loans provided by banks	10%	10%	115%	130%

283. Guarantees issued by scheme funders will be assessed for the ability of the funder to support that guarantee, and the time that will be needed to deliver that support.
284. A haircut will provide the trustees with a further measure to analyse whether the financial reserves they are holding are sufficient to meet the relevant costs.
285. We encourage master trusts to maintain reserves greater than those required by this code as a prudential measure to maximise the probability of being able to meet the costs of a triggering event
286. Master trusts are able to hold their entire CALP reserves in cash if they wish. However, these are susceptible to erosion in real terms by inflation. While the list of assets shown in this code includes a haircut on cash holdings, we will expect the CALP to take account of the effects of inflation on the calculations within it. Such consideration may include general increases in prices of goods and services, and in particular wage costs. Master trusts should take account of prevailing factors when setting these expectations, and should not necessarily default to a long term average.
287. The asset table provides the name and description of each asset class. The operation of a haircut is a simple modifier to the present value of an asset or holding. For example, an asset with a market value of £100 and a haircut of 20% would be valued at £80 for the purposes of the CALP. The table is not prescriptive and a master trust is able to choose the assets that most freely represent the needs of its CALP and continuity strategy.

### **Financial reserves: risk appetite**

288. Trustees and strategists should aim to provide an estimate of the risk appetite they have with regard to their financial reserves. This is because the value of assets and the capital/liquidity requirements themselves will fluctuate over time and we need to know if schemes are holding the bare minimum according to their estimates, or are holding a prudent buffer to account for such movements.

### **Mixed benefit schemes**

289. Mixed benefit schemes (schemes that provide both money purchase and non-money purchase benefits) established before 1 October 2018 with more than one scheme funder, each of which is a participating employer, receive some additional relaxations of the rules governing master trusts.<sup>89</sup>

89  
Regulation 28 of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

### **Mixed benefit schemes: Scheme funder**

290. A mixed benefit scheme does not need to have a separate scheme funder for the money purchase section in order to fulfil the requirement that a scheme funder does business only in relation to the master trust.
291. Our assessment of a mixed benefit scheme will focus on the activities of the money purchase section. However, we may consider the strength of any employer covenants where these are relevant to the support being provided by participating employers.
292. In respect of the money purchase section, the trustees may wish to review the existing covenant support and commitments offered by the employers participating in the non-money purchase section. This may help identify where any further support from those employers may be required. If this is the case, we may need to understand the arrangements put in place.

### **Mixed benefit schemes: Scheme assets**

293. Many master trusts have unallocated assets within the scheme that are not used for the provision of benefits. Where the rules of the master trust allow, unallocated assets may be used towards meeting the master trust's financial sustainability requirements.
294. The rules of a mixed benefit scheme may state that the expenses and wind-up costs of the money purchase section must be paid first if the scheme winds up. This can mean that in practice the money purchase section may receive financial backing from the non-money purchase section.
295. We recommend that trustees of mixed benefit schemes consider taking legal advice on this matter when preparing their CALP and calculating their financial reserves.

### **Mixed benefit schemes: Accounts**

296. The law permits mixed benefit schemes to provide accounts in relation to the scheme as a whole, not just in respect of the money purchase element.

### **Mixed benefit schemes: Business plan**

297. Certain mixed benefit schemes are exempt from the requirement for a business plan to be approved by each scheme funder, where there is more than one scheme funder, each of which is a participating employer.<sup>90</sup>

<sup>90</sup> Regulation 28(1) and (2) (c) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

## Mixed benefit schemes: Financial reserves

298. Special provisions apply to a master trust that is a mixed benefit arrangement and was established before the commencement of the Regulations, where all scheme funders are participating employers.

299. Such a master trust is permitted to have a shortfall (ie its financial resources are less than running costs and necessary reserves). Before it can rely on this relaxation, a scheme must demonstrate that at least 25% of the shortfall can be guaranteed by assets that are available to be used when the relevant costs fall due after haircuts.<sup>91</sup>

300. A shortfall may be partly secured by binding guarantees from the participating employers. Because there can be some difficulty securing funding from participating employers, we will be more likely to be satisfied by any such arrangement where a scheme has demonstrated that the value of guarantees is greater than the total financial reserving requirement set out in the CALP.

301. Maintaining an element of the running costs identified in the CALP as a legally enforceable guarantee from participating employers may be satisfactory until a master trust reaches sustainable break even. However, this is unlikely to be a satisfactory long-term solution to meet a master trust's financial reserving requirements. Therefore, the master trust should set out a timetable over which it believes it is possible for it to increase its financial reserves to a point where they fully meet the level of financial reserves identified in the CALP.

302. We will need to be satisfied that the timescale is appropriate and achievable and relates to the period covered by the business plan. We will expect to see the progress against this objective updated in each review of the business plan and CALP.

## Escrow

303. We believe that, in most cases, cash should be held for at least 25% of projected running costs where a reserve is held, and 15% of the calculated financial reserves. Master trusts may hold more cash than this if they choose to. If a master trust intends to hold more than 10% of its financial reserves in cash, we may require that it does so<sup>92</sup> in a specific vehicle, such as an escrow, intended to ring fence those assets.

304. If we ask a scheme to establish a separate account, we will need to be satisfied of the terms under which the cash is deposited, including any covenants placed on the account. We may also ask that the cash sum is held with a bank, building society or similar credit institution.

91  
Regulation 6 and paragraph 6 of Schedule 2 to the Occupational Pension Schemes (Master Trusts) Regulations 2018.

92  
Regulation 6 and paragraph 5(e) of Schedule 2 to the Occupational Pension Schemes (Master Trusts) Regulations 2018 provide that where assets include cash in a greater proportion than that set out in a Code, TPR can require trustees to hold a proportion of the assets in a separate account kept with a deposit taker. The relevant parts of this paragraph therefore have a legislative underpin and must be complied with.

## **Schemes with more than one scheme funder**

305. Some master trusts may have participating employers who meet the definition of scheme funder. These participating employers may be liable for the operating costs of the scheme. They may also be required to meet its wind-up costs.
306. In these circumstances, a master trust's financial reserving requirements may be partly secured by guarantees from participating employers. The haircuts applied to such guarantees recognise that there can be difficulty obtaining timely funding from participating employers. It is therefore necessary for master trusts to demonstrate that they also have a proportion of their financial reserves readily available. This may lead to the need for further support from participating employers.
307. Master trusts with financial reserving requirements met by employer guarantees should aim to increase the assets they hold to a point where they fully meet the financial reserves they have identified. Trustees building their assets in this way should regularly monitor their progress towards holding their full financial reserves identified.

# Financial sustainability: The business plan

## Need to know

A business plan is required as part of our assessment of a master trust's financial sustainability. It is prepared by the scheme strategist and sets out the master trust's objectives and how these will be achieved.

A business plan will be a comprehensive narrative document providing the detail required in legislation and in this code.

The business plan must be approved by any other scheme strategist, the scheme trustees and scheme funder.<sup>93</sup>

The business plan must cover a period of between three and five years.<sup>94</sup> It must be reviewed at least annually or when there is a significant change, and updated as necessary.<sup>95</sup>

Master trusts must send their business plan to us with the application, within three months of revising it and when we ask for it.<sup>96</sup>

The business plan should incorporate the continuity strategy assumptions and financial sustainability calculations.

## Evidence required

The business plan must be submitted as part of the authorisation application, and must not be more than six months old at that point.<sup>97</sup> The business plan should be specific to the master trust it represents and should only relate to the money purchase elements of mixed benefit schemes.

## Terms used

**Objectives:** What a master trust is setting out to achieve, such as commercial goals or goals related to supporting the workers of a particular industry.

**Triggering event:** A triggering event<sup>98</sup> may indicate that a master trust cannot continue to operate. It must be reported to us and means that a master cannot increase charges or take on new employers during the triggering event period.<sup>99</sup>

93 Section 9(5) Pension Schemes Act 2017.

94 Regulation 7 and paragraph 2 of Schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018.

95 Section 9(3) and (4) Pension Schemes Act 2017.

96 Section 9(6) Pension Schemes Act 2017.

97 Regulation 7(4) Occupational Pension Schemes (Master Trusts) Regulations 2018.

98 Section 21 Pension Schemes Act 2017.

99 Sections 32 and 33 Pension Schemes Act 2017.

308. Master trusts will have different operating models, which will vary from scheme to scheme. The business plan illustrates a master trust's viability through the business strategy, costs, revenues, financial sustainability, financial reserves and continuity strategy.
309. A business plan should set out the master trust's objectives. These are the goals that have been set for the master trust, often by the scheme strategist. These objectives may be seen in terms of assets under management or number of members, or instead concentrate on service offerings or charge reductions.

## Business strategy

310. We will have to be satisfied that the master trust has a sound business strategy.<sup>100</sup> This means that the objectives set out in the business plan need to be achievable and realistic, and that thought has been given to situations where the objectives are not met, or are exceeded. A sound business strategy should normally lead to a point where a master trust requires no third party financial support.
311. When assessing the business strategy, we will take account of a number of matters. The first of these are the master trust's corporate objectives. To the extent that there is a growth strategy, we will expect to see an illustration of how this is expected to be funded.
312. If a master trust is intending to operate in the consolidation of other master trusts and pension schemes, it should be able to identify the types of acquisition it intends to make, the costs of these acquisitions and the potential funding sources to finance such expansion.<sup>101</sup>
313. When providing estimates of future growth of membership, contributions, income and costs, we expect to see prudent assumptions. A master trust should be able to demonstrate that it has considered the consequences of failing to meet certain targets or assumptions used in its modelling. The parameters for all assumptions should be clearly set out so we are able to consider how reasonable they are. Consideration should also be given to the consequences of exceeding forecast growth.
314. Where a master trust is expecting to derive income from investments, such as from an annual management charge on scheme assets, we expect to see that the estimates of income received here are consistent with the investment mix set out in the statement of investment principles. Where income is derived in foreign currencies we will expect any forecasts to include details of, or allowances for, currency fluctuations or hedging activities.

100  
Section 8(2)(a) Pension Schemes Act 2017.

101  
A scheme which does not set out any intention to acquire other schemes is not thereby precluded from doing so. However, such action is likely to represent a significant change in business strategy meaning that a scheme should review and revise its business plan.

315. We also expect to see planning for any increases in reserves required in the future as a result of an expansion, in particular, of membership.
316. If the master trust also intends to offer decumulation options for members, then the potential additional costs related to this should be factored in. In particular, any additional costs associated with communications or advice to these members following a triggering event.
317. Where master trusts present similar business strategies or identify the same or overlapping markets, we will not intervene to prevent competition or influence the market. We will however expect to see that master trusts have considered the consequences of failing to meet their objectives.
318. The business plan should include details of whether the scheme funder is a participating employer in the master trust. By assessing the use of the master trust by its funder, we gain a better picture of the scheme funder's commitment to it and its ability to distance itself from it.
319. We expect to see allowances in the business plan for contingent events. These events are sometimes difficult to forecast, but may include allowances for correcting administration errors, break clauses in contracts, additional requirements from service providers and other costs that might only arise if things went wrong.
320. The distribution of contingent liabilities between funder and schemes may vary, meaning that the responsibility for meeting certain costs may fall in one camp or the other. We anticipate that in most cases, the liability for particular costs will be clear in service contracts or the scheme documents. We would therefore expect to see such contingent costs clearly apportioned between the funders and trustees.



## Planning

321. A scheme strategist of a master trust must prepare, review and revise the business plan.<sup>102</sup> The information required in the business plan is detailed in the Regulations<sup>103</sup> and in this code. All master trusts will be expected to provide the necessary information. If it is not possible to provide certain information an explanation should be given, but bearing in mind this may impact on our assessment of the master trust's financial sustainability.
322. Because of the nature of the information it contains, we anticipate that most master trusts will have to revise their business plan each year. As well as submitting the business plan as part of the application for authorisation, we must be provided with the business plan at any time on request and within three months of the plan being revised.
323. At the point of application for authorisation, a business plan must be less than six months old.<sup>104</sup> A scheme strategist may need to prepare an updated plan specifically for the purposes of the application.

### Business plan: General information to be included

324. We expect the business plan to be a detailed document that shows that the strategist and trustees have carefully considered the legislative requirements and code.
325. Where a provision of the code or the Regulations does not apply to a master trust because of the way it operates or is designed, this should be clearly identified, along with the reason for its omission.
326. It is important that the business plan is consistent with other elements of the authorisation criteria. For example, we would expect to see consistency between forecasts in the business plan and the capacity within systems and processes and a business plan which relies on rapid growth is unlikely to satisfy us if the stated aim of the scheme is to remain as a niche provider to a certain industry.
327. The business plan must cover a period of between three and five years. The scheme strategist is free to determine the period to be used, but it would be advisable to agree the period before commencing work with the trustees and scheme funders who will be agreeing the plan.
328. Wherever the business plan includes estimates, it must include a statement of the assumptions used in reaching those estimates, the basis on which these assumptions have been made, the factors that may cause these estimates to vary, and by how much.<sup>105</sup>

102  
Section 9(1) Pension Schemes Act 2017.

103  
Regulation 7 and Schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018.

104  
Regulation 7(4) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

105  
Regulation 7 and paragraph 3 of Schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018.

## Business plan: Information that must be provided about the master trust

329. There is certain information that must appear in every business plan<sup>106</sup>:
- a. Any trading or brand name under which the master trust is promoted or marketed.
  - b. The date when the scheme was established.
  - c. The pension scheme registry (PSR) number.
  - d. The HMRC reference number (PSTR).
  - e. The address of the master trusts registered office.
  - f. The name and address of the scheme administrator.
  - g. The name and address of the scheme auditor.
  - h. The name and correspondence address of each trustee.
  - i. The effective date of the business plan.
  - j. The number of employers participating in the master trust at the effective date.
  - k. The number of scheme members at the effective date, broken down by status, for example, active, deferred and pensioners.
  - l. A breakdown of the membership movements in the master trust to include those joining, receiving refunds, transferring from and leaving the master trust, in each of the three years ending with the effective date.
330. A new master trust established after 1 October 2018 should make every effort to supply the necessary information, but if it is not possible to supply certain items an explanation should be provided.
331. The business plan must confirm the name of the strategist who has prepared it, the names of the scheme funder, trustees and any other strategist, and a statement confirming their approval of the final version or revision, and the name and role of any other person who has signed off or approved the business plan.
332. There must also be a statement signed by any other scheme strategist, trustees, and each scheme funder confirming that they consider that the business plan gives a true and fair representation of the matters to which it relates.

106  
Regulation 7 and schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018. Schedule 3 provides for certain requirements relating to the business plan to be specified in the Code. Where this applies, there is a legislative underpin and the relevant requirements set out in this Code must be complied with.

## Business plan: Information about the benefit structure

333. A business plan must include details of the decumulation options that the master trust provides.<sup>107</sup> This may be as simple as an annuity purchase with a third party, to an unsecured income drawn directly from members' funds.

334. In considering whether a master trust should be authorised, we will typically only consider the money purchase benefits. However, some master trusts will also provide non-money purchase benefits and it is important that we are told where they exist and understand any interaction they have with the money purchase benefits. The business plan for mixed benefit schemes must also provide the following additional information in their business plan<sup>108</sup>:

- a. details of non-money purchase benefits offered by the master trust
- b. whether the money purchase and non-money purchase benefits are provided in segregated or separate sections
- c. whether separate money purchase and non-money purchase sections are fully segregated, or whether there can be cross-subsidies between sections in certain situations (for example winding up), and details of what those are
- d. whether there is a recovery plan to address a deficit in relation to a non-money purchase section, and
- e. whether any non-money purchase section is open or closed to new members and/or accruals.

107  
Regulation 7(1)(c) Occupational Pension Schemes (Master Trusts) Regulations 2018 provide for further requirements to be set out in a Code. This requirement therefore has a legislative underpin and must be complied with.

108  
Regulation 7 and paragraph 22 of Schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018 provide for certain requirements to be set out in a code. The relevant requirements set out in this Code therefore have a legislative underpin and must be complied with.

## Business plan: Information about scheme funders

335. The business plan must provide the name of each scheme funder.<sup>109</sup> If there are multiple scheme funders, the trustees may ask us to give greater consideration to the strength of particular scheme funders.
336. If trustees wish us to do this, further information on the reasons why and supporting evidence should also be provided. This information should be more detailed and include details of their registered address and any Companies House or equivalent reference, together with the reasons, and supporting evidence, as to why we should accept them as lead funders.
337. A scheme funder may have a single shareholder or be reliant on a particular individual or major shareholder. We would normally consider a scheme funder to be reliant on any person who exercises or controls, on their own or together with any person with whom they are acting in concert, 33% or more of the votes able to be cast on all or substantially all matters at general meetings of the company, or who owns 33% or more of the share capital of the company.
338. In these situations we would expect the business plan to include details of the succession planning and any key person provisions covering the event that the shareholder or single individual ceases to act as, or be connected to, the scheme funder.
339. If there is no scheme funder for a particular master trust, for example where it is operating from its own resources, the business plan should state this. It should also show how the master trust intends to meet the financial sustainability criteria, especially in situations where its current income is insufficient to meet that requirement.

109  
Regulation 7 and  
paragraph 10(b) of  
Schedule 3 to the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

## **Business plan: Information about the scheme strategist**

340. The business plan must include the name of each scheme strategist and should also include the position they hold in the scheme funder's business or the nature of any connection with the scheme funder, if applicable.
341. Where the functions of the scheme strategist are distributed among various staff, it will be important for us to understand what discretionary ability each individual or division has. In most cases, the relevant individual will be the person with responsibility for signing off the business plan.
342. The business plan must give a declaration as to the experience, knowledge, professional qualifications and competence of the scheme strategist, including plans to improve competence.<sup>110</sup> It should also describe the experience and competence of others involved in running and controlling the scheme. In the majority of cases, these individuals will be the trustee, any other strategist and scheme funder.
343. The business plan should also include the name, role, and responsibilities for anyone who is in a position of influence, including but not limited to those subject to the fit and proper tests. Where an individual is subject to a fit and proper assessment, the details provided in the business plan can make reference to this. The business plan should also set out how the scheme strategist has satisfied themselves that these individuals possess relevant skills, knowledge and experience, and any contingences that have been made for these individuals ceasing to act in their role.

110  
Regulation 7 and  
paragraph 20 of  
Schedule 3 to the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

## Business plan: Milestones and measurement<sup>111</sup>

344. When setting out a master trust's objectives, key delivery milestones must also be set out. These might include plans to reach or retain a certain number of members, or to review charges, by a particular point.
345. Milestones should be set out in the master trust's business plan at regular time intervals. For a brand new master trust, these milestones might be set quarterly, while for a more established or less growth-oriented scheme these might be set at annual intervals. We expect to see milestones throughout the duration of the plan, with an indication of how critical each milestone is to the sustainability of the scheme. Milestones may also relate to key dates in agreements within contracts and with service providers.
346. As well as the milestones, a business plan must include details of the strategy that the trustees and scheme strategist will adopt to achieve them.<sup>112</sup> The approach to measurement and reporting of the milestones should also be taken into account.

111  
Regulation 7 and paragraph 23 of Schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018 provide for certain requirements relating to the scheme's objectives and strategy for meeting them to be set out in a Code. The relevant requirements set out in this Code therefore have a legislative underpin and must be complied with.

## Business plan: Target market<sup>113</sup>

347. A significant component of any business plan is consideration of the target market for the master trust. The size and nature of the target market will significantly influence the ability of a master trust to meet its target, particularly if its objectives are large, and its market small.
348. There are two areas that a business plan must highlight specifically. The first is whether the master trust is used, or is proposed to be used, for AE. Where the trustees and strategist are not clear whether it is being used by all or some participating employers for automatic enrolment, they should be clear whether the master trust is, or can be, a qualifying scheme.
349. The second key area to note is whether the master trust is, or is planning to, operate in the consolidation of other schemes. This may be through a specific intention to acquire other master trusts, or to market itself as a home for members and assets from an employer's own trust scheme or from other master trusts.
350. Some master trusts, or sections of them, may be promoted or marketed to employers by commercial or non-commercial partners under a brand name that is different from the registered name. It is important for us to be aware of situations where this is taking place and for the relevant master trust to detail all trading names, and any partner organisations, that it may have.

112  
Regulation 7 and paragraph 23 of Schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018.

113  
Regulation 7 and paragraph 23 of Schedule 3 to the Occupational Pension Schemes (Master Trusts) Regulations 2018 provide for certain requirements relating to the scheme's objectives and strategy for meeting them to be set out in a Code. The relevant requirements set out in this Code therefore have a legislative underpin and must be complied with.

## Business plan: failure to meet targets or milestones

351. Any significant failure to meet a key milestone, target, estimate or assumption set out in the business plan is a significant event and must be reported to us as soon as reasonably practicable<sup>114</sup>. Please also see the section on significant events.
352. As the objectives, milestones and resources reflected in the business plan will differ for each master trust, we expect the scheme's strategist to outline what they consider to be a significant failure for their master trust.
353. We expect the business plan to set out the tolerance levels and trigger-points for notifying us of any changes that the strategist considers to be prudent for their master trust, including their reasons for this. As a minimum, we expect this to include changes to current or planned:
- a. membership numbers
  - b. classes and proportions of scheme assets
  - c. future income from participating employers, and
  - d. changes to support available from scheme funders.
354. We will also need to be assured that there are sufficient processes to identify, and appropriately address significant events, within a master trusts systems and processes.
355. If we are not satisfied that the arrangements for notifying us are adequate, we may not be satisfied that the master trust meets the authorisation criterion for the business plan to be sound.

## Submitting a revised business plan

356. Whenever a revised business plan is submitted to us, any changes and revisions must be highlighted.<sup>115</sup> Where milestones, objectives or outcomes have altered we will require an updated commentary from the scheme strategist outlining the impact and consequences of the changes. Any such commentary may also contain additional comment from the trustees and scheme funder.
357. Where a revised business plan is delayed by concerns raised by the scheme funder or trustees, we should be notified of the delay and the issues leading to the delay. If the issues cannot be resolved, this may affect our view of whether the scheme continues to satisfy the criteria to be authorised.

114  
Section 16 Pension Schemes Act 2017 and regulation 14(e) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

115  
Regulation 7(5) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

## Business plan and triggering events

358. If a master trust has experienced a triggering event and we have approved an implementation strategy in relation to the scheme, we may waive the requirement for a revised business plan to be submitted to allow efforts to be focused on implementation of a relevant continuity option.<sup>116</sup> As part of our review of the trustees' progress with any continuity option, we may ask for updates about certain aspects of the business plan.
359. The costs incurred as a master trust nears the end of a triggering event period are very likely to have reduced the value of the financial reserves available to the scheme. Part of a scheme's efforts to demonstrate that it has resolved a triggering event will include a revised business plan. This business plan should include the plans and timetable for restoring the scheme's financial resources to a satisfactory level to meet the financial sustainability criterion.
360. Once a triggering event has been resolved and financial reserves are still being rebuilt, any subsequent business plan must include details of the progress made by the master trust against the plans it set out to restore the level of assets it should hold.<sup>117</sup>

116  
Regulation 7(6) and (7)  
of the Occupational  
Pension Schemes  
(Master Trusts)  
Regulations 2018.

117  
Regulation 7 and  
paragraph 25 of  
Schedule 3 to the  
Occupational Pension  
Schemes (Master  
Trusts) Regulations  
2018 provide for certain  
requirements relating  
to assets and liquidity  
to be set out in a Code.  
The relevant parts of  
this paragraph therefore  
have a legislative  
underpin and must be  
complied with.



## Supervision

361. Master trusts must continue to meet the authorisation criteria on an ongoing basis and supervision is how we will monitor this. We will check that a master trust should remain authorised when there is a significant event reported to us and on an ongoing basis via the supervisory return.
362. The trustees need to continue to satisfy us that the master trust meets the authorisation criteria on an ongoing basis. We will consider the authorisation criteria and all other relevant duties and requirements when overseeing master trusts.
363. There should be suitable governance in place, including monitoring and reporting to the trustee board, to enable timely engagement with us and to report to us as required.
364. Supervision under the master trust legislation does not operate in isolation and master trusts are also subject to other oversight and activity, for example relating to other legislative requirements, codes of practice and thematic reviews.

## Supervisory return

365. The trustees will be required to complete a supervisory return and a scheme return, to provide information to satisfy us that the master trust continues to meet the authorisation criteria<sup>118</sup>.
366. The trustees will receive at least six weeks' notice to submit the supervisory return. The first supervisory return is expected to be required after the master trust has been authorised for a year.
367. The content of the supervisory return notice will be set, reviewed and updated to aid us in ensuring master trusts' ongoing compliance with the authorisation criteria. The return is likely to ask for updates to the business plan, the annual chair's statement and to highlight any issues or changes in the master trust.

118  
Section 15 Pension  
Schemes Act 2017.

## Significant events

368. Significant events<sup>119</sup> are circumstances arising during the operation of a master trust, which must be notified to us as soon as reasonably practicable once the person is aware that the event has occurred. When a significant event occurs, our focus will be whether we remain satisfied that the master trust continues to meet the authorisation criteria.
369. The duty to notify falls on most of the parties involved in supporting the management of a master trust.<sup>120</sup> This typically includes those required to be assessed under the fit and proper criteria, but also extends to advisers and administrators.
370. Notifications must be made as soon as reasonably practicable, which will normally mean 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 where they are unsure on whether to notify or not.
371. We expect master trusts to have systems and processes in place to monitor and address significant events, and to support those with reporting duties to fulfil their obligations.
372. We will use the information you provide to help consider and assess whether we remain satisfied the master trust continues to meet the authorisation criteria. Where we are not satisfied with the master trust's response to the event, and therefore we are not satisfied that the master trust continues to meet the authorisation criteria, we may decide to take further action, including deauthorising the scheme.

## Individual significant events

373. We have set out our expectations below for notifying the following significant events:
374. **Change to the statement of investment principles** – we expect any change to the investment strategy to be reported as a significant event.
375. **Changes to the business plan** – we expect any change that requires a revision to the business plan outside of the annual review cycle to be reported as a significant event.
376. **Failure to meet milestones in the business plan** – we expect any significant failures to meet the thresholds in the business plan to be reported.

119  
Regulation 14 of the  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

120  
Section 16(2) of the  
Pension Schemes  
Act 2017.

377. **The master trust is unlikely or unable to meet its liabilities on demand** – we consider notification of this event ‘as soon as reasonably practicable’ to mean within one working day of the person becoming aware that:

- a. the master trust cannot, or is not likely to be able to, meet on demand any of its liabilities from an accounting perspective as and when they fall due during the ordinary course of business. This includes trading whilst insolvent or likely to trade whilst insolvent.
- b. the master trust is unlikely to meet its costs (expected or unexpected costs).

For this event, we are likely to consider whether we are satisfied that the scheme remains financially sustainable, and the trustees, scheme funder and scheme strategist should monitor whether they need to notify a triggering event.

378. **The master trust is unable or unlikely to meet the level of assets or liquidity agreed with us and set out in the business plan** – we consider notification of this event ‘as soon as reasonably practicable’ to mean within one working day of the person becoming aware that this event has occurred for at least two consecutive working days. We will expect a notification to be made where financial reserves fall to less than 98% of the level agreed in the CALP.<sup>121</sup>

379. **A failure of the systems and processes used in running the master trust, which has a significant adverse effect on the security or quality of data or on service delivery** – we consider notification of this event as soon as reasonably practicable to mean within one working day of the person becoming aware of the failure.

We expect a notification to be made where an incident significantly affects member data or member benefits, including those relating to cyber security incidents or near-misses, data integrity issues that impact common/conditional data and any significant IT incidents or near-misses, or any incident where a member has suffered financial or non-financial detriment. Such incidents may also constitute a breach of data protection obligations.

380. **There is an investigation in respect of the master trust, or a person involved in a master trust, by a regulator or other competent authority including those outside the United Kingdom** – 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.

121  
Regulation 14(g)  
Occupational Pension  
Schemes (Master Trusts)  
Regulations 2018.

## Triggering events

381. Triggering events<sup>122</sup> are events that may indicate that the master trust cannot continue to operate. TPR and the scheme's employers must be notified of a triggering event occurring.<sup>123</sup>

382. We expect the trustees and scheme strategist 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 master trust 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.

383. If a master trust experiences a triggering event, the trustees, scheme funder or scheme strategist need to notify us within seven days<sup>124</sup> of the event occurring, or in some cases within seven days of becoming aware of the event occurring.<sup>125</sup> The trustees are also required to notify the employers within 14 days of the event occurring.<sup>126</sup> If you experience more than one event, you need to report each event separately. If you are unsure whether a triggering event has occurred, you should seek professional advice.

384. There are some triggering events<sup>127</sup> which need to be notified when a decision has been made. A decision can be taken outside of a formal meeting and our expectation is that where clear steps have been taken regards to an event, without a formal minuted decision, a notification will need to be made. The table on page 90 sets out the triggering events that you need to notify us of.

122  
Section 21(6) Pension Schemes Act 2017.

123  
Section 22 Pension Schemes Act 2017.

124  
Regulation 16(2) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

125  
See the table in section 22(3) Pension Schemes Act 2017 which sets out who is required to notify within seven days for each triggering event, and the table in section 22(5) setting out who is required to notify within seven days of becoming aware of the triggering event where relevant.

126  
Regulation 16(2)(b) of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

127  
Triggering events 6, 8 and 10.

**Table: Triggering events**

Triggering event		Date event occurs
4	A scheme funder has an insolvency event	The date of the insolvency event
5	A scheme funder becomes unlikely to continue as a going concern	The earlier of the date the scheme funder tells us or the date the trustees or scheme strategist become aware of the event
6	A scheme funder decides to end the relationship with the scheme	The date of the decision
7	A scheme funder ends the relationship or arrangement with the scheme	The earlier of the date the scheme funder tells us or the date the trustees or scheme strategist become aware of the event
8	A scheme funder, scheme strategist or the trustees decide 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
9	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
10	The trustees decide that the scheme is at risk of failure and cannot continue in its current state	The date of the decision

385. Notification duties attached to the above triggering events fall into two categories. The first category is that certain roles that are more closely involved with the event must notify us within seven days starting with the date of the event itself.<sup>128</sup> The second category is that certain other roles must notify us within seven days, starting with the date they first become aware of the event<sup>129</sup>:

- a. Scheme funders must notify us about items 4-7 and 8 (when they are the decision-maker) in the first category and item 10 in the second.
- b. Trustees must notify us about items 8 (when they are the decision-maker) and 10 in the first category and items 4-9 in the second.
- c. Scheme strategists must notify us about item 8 (when they are the decision-maker) in the first category and items 4-10 in the second.

386. A triggering event will also arise where there is a final decision to refuse or withdraw a master trust's authorisation, or a notice from us that a master trust is not authorised.

## Implementation strategy

387. While the continuity strategy is a high-level, flexible document providing the framework for how the interests of members are to be protected if a triggering event occurs, an implementation strategy should provide a more detailed plan for how the trustees will implement the continuity option for their scheme. This should include the actual decisions, actions, owners and timescales that have resulted from working through the higher level plan set out in the continuity strategy.

388. Where the triggering event has been initiated by the trustees, strategist or funder<sup>130</sup>, the implementation strategy must be submitted to us for approval before the end of 28 days beginning with the date of the triggering event occurring.

389. Where the triggering event is as a result of action taken by us<sup>131</sup>, the implementation strategy must be submitted for approval within 28 days beginning with the date of the relevant decision becoming final.<sup>132</sup>

128  
Section 21 Pension Schemes Act 2017.

129  
Section 22 Pension Schemes Act 2017.

130  
Triggering events 3-10 in the table set out in section 21(6) Pension Schemes Act 2017.

131  
Triggering events 1, 2 & 2A in the table set out in section 21(6) Pension Schemes Act 2017.

132  
Regulation 17 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

390. We will expect an adequate implementation strategy to do the following:
- a. Show that the trustees have carefully considered and applied the requirements of the Act and Regulations, as well as the provisions of the code.
  - b. Contain an analysis of the risks to members' benefits and disrupting employers' AE duties, and provide adequate mitigations.
  - c. Set out an appropriate and realistic timescale for dealing with the triggering event in relation to either continuity option one (transfer and wind up) or option 2 (resolve triggering event), as appropriate.
  - d. Provide the rationale for pursuing the chosen continuity option.
  - e. Where the trustees have decided to pursue continuity option 2 (resolve the triggering event), we expect the strategy to set out in detail the conditions and timescales that may lead the trustees to instead pursue continuity option 1 (wind up the master trust).
  - f. Set out the statement of administration charges calculated using the method set out in the Regulations.<sup>133</sup>
  - g. Details of the trustee default receiving scheme and any other retirement vehicle they intend to use to transfer members to.
  - h. Provide detail of the plan for calling on the financial reserves to cover the costs of complying with the relevant continuity option.
391. Wherever the implementation strategy includes cost estimates, we will expect a statement of the factors that may cause these estimates to vary, and by how much.
392. During a triggering event period for a master trust scheme, the trustees must submit periodic reports<sup>134</sup> to us. The first report must be submitted before the end of the 14 days beginning on the date on which we notify the trustees that the implementation strategy is approved.<sup>135</sup>
393. We will notify the trustees of the timeline for submitting subsequent reports. It is likely the second report will be required within a month of the first report being submitted.

133  
Regulation 18 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

134  
Section 30 Pension Schemes Act 2017.

135  
Regulation 22 of the Occupational Pension Schemes (Master Trusts) Regulations 2018.

## Resolving a triggering event

394. The trustees must notify us within 14 days of when they consider that a triggering event has been resolved<sup>136</sup> when following continuity option two, setting out how the resolution was reached.<sup>137</sup>

395. We must notify the trustees whether we are satisfied the triggering event has been resolved. We cannot be satisfied that a triggering event has been resolved unless the initial event and any subsequent ones have been addressed. Depending on how the trustees proposed to resolve the triggering event, evidence in support of this may include revisions or updates to the following:

- a. Business plan, including details of revised funding and/ or finance arrangements.
- b. CALP (costs, assets and liquidity plan).
- c. Continuity strategy.
- d. Persons subject to fit and proper assessments.
- e. Systems and processes.

136  
Section 25(2) of the  
Pension Schemes  
Act 2017.

137  
Section 25(3) of the  
Pension Schemes  
Act 2017.



# Applying for authorisation

## Need to know

In order to become an authorised master trust, the trustees of a master trust must make an application.

An existing master trust (in operation before 1 October 2018) must make an application within the application period or it will not be able to continue to operate as a master trust. This will constitute a triggering event and the master trust will be required to follow continuity option one – wind up and transfer out.

A new master trust must be authorised before it begins to operate. If it begins to operate before authorisation is granted it will experience a triggering event and automatically be required to follow continuity option one.

## Evidence required

For an application to be made, it must contain evidence in support of the requirements set out in legislation and this code.

## Terms used

**Applicant:** The trustees of the master trust applying for authorisation.

**Application period:** Period of six months from 1 October 2018.<sup>138</sup>

**Authorisation team:** The team at TPR which assesses the authorisation application, including preparation of the preliminary recommendation letter and any appearances at oral hearings.

**Commencement date:** 1 October 2018.

**Decision maker:** The Determinations Panel or the Executive Arm.

**Determinations Panel:** The Determinations Panel established under section 9 of the Pensions Act 2004.

**Existing master trust:** A master trust that is in operation prior to the commencement date.

**Executive arm:** The individuals within TPR who have authority to make a decision on whether or not to authorise a new master trust.

continued over...

<sup>138</sup> The application period is extendable up to 6 weeks on application should the trustees satisfy us they have good reason for needing an extension. See further section 3(7) Pension Schemes Act 2017 (as modified by paragraph 8 of Schedule 2 to the Act).

Applying for authorisation: terms used continued..

**New master trust:** A master trust that meets the definition of a master trust for the first time after the commencement date.

**Parties:** The applicant, together with the authorisation team.

**Continuity option one:** The decision that the interests of members are best served by securing their benefits in another master trust. A scheme that is not authorised, or is de-authorised, will have to follow this option.

**Triggering event:** A triggering event<sup>139</sup> may indicate that a master trust cannot continue to operate. It must be reported to us and means that a master cannot increase charges or take on new employers.

## The process for applying for authorisation

396. Where a master trust wishes to be authorised, the trustees of the master trust must make an application to us for authorisation. We will assess an application against the authorisation criteria. If we are satisfied that the authorisation criteria are met we must grant the authorisation. If we are not satisfied that the criteria are met, we must refuse authorisation.
397. Where a master trust is authorised, we are required to add the scheme to a list of authorised master trusts which we are required to maintain and publish.
398. In respect of an existing master trust, an application must be made before the end of the application period. If, before the end of this period, the trustees satisfy us they have a good reason for needing an extension, we may extend the period by up to six weeks. We are more likely to grant an extension where the reason for requesting an extension is as a result of circumstances beyond the trustees' reasonable control. Further details on applying for an extension can be found in our guidance.
399. A new master trust must be authorised before they can operate but they can apply for authorisation at any time.

139  
Section 21 Pension  
Schemes Act 2017.

400. We will consider an application for authorisation to have been made when we have received a complete application. A complete application is one which includes a response to all relevant questions in the application form, and:

- a. all relevant disclosures made by persons subject to the fit and proper assessment
- b. the master trust's latest accounts
- c. the latest accounts of each scheme funder, unless exempt
- d. the business plan
- e. the continuity strategy
- f. the correct application fee by BACS transfer
- g. the master trust's latest chair's statement (as required by regulation 23 of the Occupational Pension Schemes (Scheme Administration Regulations 1996). Where a chair's statement has not previously been prepared, an equivalent document containing – to the extent possible – the same information will suffice.<sup>140</sup>
- h. if a scheme has been required to prepare a Statement of Investment Principles in accordance with regulation 2 of the Occupational Pension Schemes (Investment Regulations) 2005, the most recent statement
- i. details of the systems and processes used or intended to be used in the running of the master trust, provided in accordance with the systems and processes requirements
- j. a criminal conviction certificate for each person subject to the fit and proper assessment, which must be obtained no longer than six months before the date of submission.

401. We expect the trustees of a master trust to provide evidence in support of an application for authorisation. In considering what evidence is appropriate, trustees should:

- a. understand what the documentation is being provided as evidence of
- b. ensure the evidence provided is meaningful to the master trust, understand why any documentation was produced, and how it has been and will be used practically within the master trust
- c. ensure the evidence provided supports any assertions made in the narratives

140  
Regulation 23 of The  
Occupational Pension  
Schemes (Scheme  
Administration)  
Regulations 1996.

- d. ensure the narratives provided in relation to a requirement include clear links to the relevant parts of any documentation provided as evidence, and
- e. understand, where external assessments relevant to an authorisation criterion exist, and why they have or have not been used.

402. We may also ask for additional information where this is considered relevant for the purpose of assessing whether the scheme should be authorised. Where assertions are made, or where extracts of documents are provided, we may ask for evidence to support the assertion or the full documentation during our assessment.

### **Acknowledgement to confirm application received**

403. Once we have received a complete application, we will acknowledge that we have received the application and that the six month period for making a decision has commenced, beginning on the date the application was first submitted.

404. Where we have not received all the information or the full application fee required, we will inform the trustees that an application has not been made and we are unable to begin our assessment until all the relevant items have been received. If this is the case, we will look to inform trustees within seven days of the application being submitted.

405. Trustees are required to provide information and supporting evidence to meet the authorisation criteria. In doing so, they may submit additional documentation or information to support the application. This should be submitted at the same time as the application.

406. It is in the interests of the trustees to ensure that all information and documents are accurate and up to date before submitting this to us as part of the application. Further details on information and document requirements can be found within the sections of code, and related guidance, in relation to the authorisation criteria.

## Changing or providing new information after submission

407. We acknowledge that there may be circumstances that will require a change to an application. In such circumstances the change should be submitted to us as soon as possible, along with the reason for the change.
408. Due to the six month statutory timescale we have to make a decision, we are more likely to be able to take into account any changes or new information where this is supplied to us earlier in the process of assessment.
409. An application may be withdrawn by notifying us at any time before a decision is made in respect of it. However, any requests for a refund will only be considered on an exceptional basis.
410. If an existing master trust withdraws an application during the application period, it may submit a new application but must do so before the end of the application period and will need to pay the relevant fee for the new application. If it does not do so, it will have a triggering event and be required to pursue continuity option one.
411. Where we do not authorise an existing master trust, it must pursue continuity option one, in transferring out and winding up.
412. Where we have not received an application from an existing master trust:
- a. by the end of the application period, or
  - b. where an existing application is withdrawn and no new application is submitted before the end of the application period, or
  - c. where a new master trust is found to be operating without authorisation,

we must notify the trustees that the master trust is not authorised and that there has been a triggering event and continuity option one must be followed.<sup>141</sup>

141  
Section 3(3) and (4)  
Pension Schemes  
Act 2017.

## **Scheme funder: Business changes**

413. Businesses are not static and it is possible that the scheme funder will experience structural changes, either during the application period or after the master trust has been authorised.
414. Where these activities are known in advance, the scheme trustees or scheme funder should notify us as soon as possible after they become aware of the activity, or proposed activity. We may ask additional questions as a result of the information being supplied and early notification of any changes are less likely to impact the timetable set out at the start of the application process.

## How to contact us

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[www.tpr.gov.uk](http://www.tpr.gov.uk)

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Free online learning for trustees

[www.pensionseducationportal.com](http://www.pensionseducationportal.com)

Free online learning for those running public service schemes

Code of Practice no. 15

### **Authorisation and supervision of master trusts**

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