



Ms Maggie Simpkin
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By post and email to reinvigorating.pensions@dwpgsi.gov.uk

Dear Ms Simpkin

Better Workplace Pensions: Reducing regulatory burdens, minor regulation changes, and response to consultation on the investment regulations - Public consultation and Government response - November 2015

Thank you for the opportunity to respond to the above-named public consultation. PricewaterhouseCoopers LLP acts as independent, external auditors to approximately 750 occupational pension schemes in the United Kingdom.

Our key points

- We agree with the need for change, and in fact fundamentally we do not believe that the proposals go far enough since there are other regulatory requirements that have not been considered as part of the DWP's proposals, which, due to passage of time and further reporting developments, no longer seem to be either relevant or necessary.
- The scope of the proposal is flawed in respect of the auditor's statement about contributions, since it creates an artificial distinction between schemes on the grounds of numbers of employers. It is counter-intuitive to maintain a higher level of regulation for smaller and simpler schemes, whilst removing it for larger and more complex schemes.
- There is a transitional issue which needs to be addressed to ensure that the disclosure reductions proposed occur at the same time as adoption of the new UK GAAP.

In the appendix to this letter, we set out how we believe the proposals can be amended in order to achieve a reduction in regulatory burdens without compromising member protection.

Our approach to responding to the consultation

Within the context of wider deregulation, the proposals which we have considered in this letter include:

- Removing historic disclosure requirements for pension scheme accounts which could be considered unnecessary in the context of recent developments in UK financial reporting standards; and
- Removing the requirement for trustees of large multi-employer schemes to obtain an auditor's statement about contributions.

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These proposals have greatest relevance to the preparation of accounts by trustees and our role as auditors. This letter therefore does not address all of the questions in the consultation document.

Contact for enquiries

Please do not hesitate to contact Duncan Brown on 020 7212 5121 or at 7 More London Riverside, London SE1 2RT, if you wish to discuss any aspects of our response.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Duncan Brown LLP'.

PricewaterhouseCoopers LLP

Appendix

Abbreviations

In our response to the questions below we use abbreviations as set out in the following table

Legislation or other requirement	Abbreviation
Occupational Pension Schemes (Charges and Governance) Regulations 2015	the governance regulations
Occupational Pension Schemes (Investment) Regulations 2005	the investment regulations
Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996	the AA regulations
Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013	the disclosure regulations
The Statement of Recommended Practice "Financial Reports of Pension Schemes"	SORP The 2007 SORP was dated May 2007 and the 2015 SORP was dated November 2014
The Financial Reporting Standard applicable in the UK and the Republic of Ireland	FRS 102

Our responses to specific consultation questions

Reducing regulatory burdens on schemes

Question 1: Do you have any views on ways that regulatory burdens on occupational pension schemes (including managers and trustees) can be reduced without compromising member protection?

The following requirements could be removed without compromising member protection:

Requirement proposed for removal	Why this is no longer necessary	Our proposals
<p>Information to be given in the Annual Report: "If Part 3 of the 2004 Act applies, a copy of the certificate by the actuary under section 227 of the 2004 Act (schedule of contributions) about the adequacy of the contributions payable towards the scheme." [disclosure regulations 3 Sch 6]</p>	<p>FRS 102 now requires information about actuarial liabilities to be presented alongside the accounts, and the SORP requires disclosure of certain matters relating to the content of the schedule of contributions (such as the amount and timing of future deficit funding contributions). Requiring the actuary's certificate to be included imparts very limited additional information (effectively only the date the schedule was approved). The requirement to include an additional page (or several pages for schemes with multiple schedules of contributions for different employers) is disproportionate to the limited value of the additional information imparted.</p>	<p>(1) (Preferred). Remove this requirement altogether. OR (2) Replace it with a requirement to state the dates of the most recent schedule of contributions, and if multiple concurrent schedules apply, an indication of the extent (e.g. section or employer) of each schedule</p>
<p>Schedule to the Pension Protection Fund (Valuation) Regulations 2005 ... and the reference to the Schedule in paragraph 1(2) of those regulations (under the definition of "relevant accounts").</p>	<p>The Schedule sets out content requirements for relevant accounts used for section 143/179 valuations under the Pensions Act 2004. The existing Schedule is almost identical in content to the existing AA regulations equivalent. For the same reasons, increased disclosure requirements in FRS 102 and the SORP (which apply to relevant accounts as well as to annual accounts) mean that removal of excess requirements is desirable.</p>	<p>Corresponding changes as are made to the AA regulations</p>

Investment disclosure

Question 6: Do you agree or disagree that the AA regulations need amending? If you disagree please say why. If you agree, are you content with the proposed approach as set out in Option 3, or would you prefer an alternative approach?

As noted in the SORP preface: "the detailed investment disclosures required to be made in pension scheme financial statements by the Audited Accounts Regulations, which have remained unchanged since 1986, need to be reviewed and ideally withdrawn and replaced with the requirement to comply with FRS 102. This will realign investment disclosures to a more risk based disclosure regime which will afford more flexibility as investments used by pension schemes continue to evolve."

We agree with this view, subject to the following observations and those relating to question 7 below. Based on these comments, our preferred route is closer to option 2 than option 3 and we explain later why the additional requirements of option 3 as proposed are, in our view, unnecessary.

Who is primarily responsible for producing compliant accounts?

The draft AA regulations propose that the remaining disclosure requirements be added as regulation 3A under the heading "Information to be supplied by the Auditor". This is either an error or shows a fundamental misunderstanding of the role of the auditor, which is to form an independent opinion on the financial statements or accounts prepared by the trustees.

Any remaining disclosure requirements considered necessary to be included in the AA regulations should therefore be headed "Information to be included in the accounts".

Should auditors opine on SORP compliance?

At present, the annual accounts are required (by the existing AA regulations) to include a report by the auditor including an opinion on whether the accounts show a true and fair view and whether they contain the information specified by the schedule to those regulations. The auditor is therefore confirming that the trustees have made a statement of compliance with the SORP (required by the regulations) and consider that trustees' statement in the context of their true and fair opinion.

For a company, the requirements for the auditor's report (in addition to truth and fairness and preparation in accordance with the Companies Act) include "have been properly prepared in accordance with the relevant financial reporting framework". The Auditing Practices Board bulletin 2010/2 deals with this by requiring the inclusion of the words "have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice" in the auditor's report for most private companies. These words also appear in the example auditor's report for occupational pension schemes in the same document, even though it is not a specific statutory requirement for pension schemes.

Pension scheme auditors therefore give this opinion already, and it should not be necessary to make it an additional statutory requirement. However, if it were considered important to add this as a statutory requirement, we recommend using wording similar to the Companies Act example above, without referring explicitly to FRS 102 or the SORP.

Question 7: Do you agree or disagree with the investment information that would be prescribed under Option 3? If you think additional information should be prescribed, could you please say (i) what this information is, (ii) why it should be prescribed and (iii) what the impact that prescribing this information would have on scheme costs (i.e. would there be a further reduction, or an increased, in scheme administration costs as a result).

We do not believe that any additional information needs to be specified for disclosure under the draft AA regulations, and therefore agree with the proposed removals under option 3.

Furthermore, we challenge the view expressed in the consultation document that the following disclosures need to be retained in regulations, and hence our preferred route is closer to option 2:

Area	Requirement duplicated in
Concentration of investments ("5% test") proposed in draft regulation 3A (2)	SORP 3.17.1. This does not apply to gilts (which the draft AA regulation also exempts) or holdings of pooled investment vehicles (which whilst an individual investment may account for more than 5%, the underlying investments within such a fund are unlikely to present a concentration risk).
Employer-related investments proposed in draft regulation 3A (3) or (4)	This duplicates disclosure regulations 3 Sch 32 and 33, although disclosure regulations requirements do not need to be audited. The requirement to disclose related party transactions (which are within the scope of the audit) included in SORP 3.32 (and FRS 102 chapter 33) would cover the majority of employer-related investments, unless immaterial.
Total amount of purchases and sales in the year, proposed in draft regulation 3A (5)	SORP 3.14.1 which requires a reconciliation table showing sales, purchases and change in market value of investments between the start and end of the period.

Paragraph 12 describes them as "three specific pieces of investment information where disclosure is not covered by FRS 102." Whilst the source of the requirements above are largely in the SORP rather than FRS 102, the fact that the draft AA regulations require compliance, and if not complied with, details of the impact of non-compliance disclosed, means that the SORP disclosures have the same degree of force as FRS 102 requirements. Furthermore, FRS 100 (which sets the framework for UK GAAP) requires additional impact and rationale disclosures where a SORP applies but has not been complied with. Failure to comply with the SORP on a material matter would result in a qualification of the auditor's true and fair opinion.

In respect of the concentration risk disclosure (5%), the SORP does not require disclosures of individual pooled investment vehicle investments exceeding 5% of net assets, which is required by the current version of the AA regulations. The reasons for this are noted above.

If, however, it was considered that this disclosure was important to include in addition to the SORP requirement, our preference would be to remove the proposed exemption for UK gilts from this disclosure as well, i.e. require disclosure of all 5% investments. The efforts required to add a small number of additional lines to this disclosure would be negligible, but it is intuitively easier for the reader to understand a list of all investments accounting for more than 5% of net assets, rather than a list only of selected investments.

In respect of employer-related investments, we believe the existing accounting requirements and disclosure regulations provide sufficient coverage of this area, and therefore that this requirement should be dropped from the AA regulations. If our suggestion is not taken up, we would be keen to see the corresponding disclosure regulation requirements dropped for schemes which are within the scope of the AA regulations, to remove an unnecessary duplication.

Question 8: Do you have any comments on these estimated savings? If you think the cost savings would be higher or lower please provide your estimate of the impact that the proposed changes would have.

We have no evidence to support any estimates of cost impacts, but as the result will be a reduction in regulatory requirements without compromising member protection, the case for proceeding with reductions in requirements is a compelling one, regardless of the actual financial impact. We note that the impact is likely to vary considerably depending on the complexity of the scheme's investment arrangements.

We also believe that having a single set of requirements for investment disclosures will improve the readability of financial information presented and increase comparability between entities preparing accounts under different regulatory regimes but also under UK GAAP.

Auditor's statement about contributions

Question 9 (i) Do you agree that large multi-employer schemes should be exempt from the requirement for an auditor's statement? (ii) Is at least 20 participating employers the right number on which to base this exemption? (iii) Can you provide any information on likely savings from this change?

The argument for removing the requirement to obtain an auditor's statement, as set out in the consultation document, is that "there is now a statutory requirement to have adequate internal controls, and there are also specific regulatory requirements around monitoring the flow of contributions." As the section 249A Pensions Act 2004 requirements for internal controls apply to substantially all pension schemes (the main exceptions being some schemes in the public sector and pay-as-you-go schemes, which are not required to obtain a statement about contributions anyway) and the Pension Regulator's codes of practice 03 (DB) and 05 (DC) likewise, it is hard to see why this exemption should not be afforded to all schemes to which the requirement currently applies, regardless of the number of employers.

We point out that member protection has also for many years been enhanced by whistleblowing requirements for those administering the scheme, auditors, scheme advisers and employers.

Together, we believe these provide a compelling argument for removing the requirement to obtain an auditor's statement about contributions for all schemes, not just schemes with a certain number of employers. In our view it would be unjustified, and an unnecessary regulatory burden, to retain this requirement for smaller schemes.

Where trustees wish to obtain more detailed assurance on contributions, they would be able to engage their auditors to perform specific procedures focused on identified areas of concern.

Is a limit based on the number of participating employers sensible?

We do not think so. Applying such a limit has the following problems:

- Schemes with a large number of employers managed by a single payroll team can often be easier to manage than schemes with fewer (and even one) employer which have divisionalised payroll activities or complex contribution arrangements;
- Schemes with a number of employers close to the limit would be required to comply in some years and not in others (and may therefore be tempted to leave employers in place for no other reason than to benefit from an exemption);
- Employers which have only deferred members do not usually add to complexity of contribution arrangements; and
- The term "participating employer" is not defined in the draft AA regulations

As stated earlier, we strongly believe that the requirement should be removed for all sizes of schemes but we make the observations above to ensure that if it is necessary to define a limit, this is done on a fair and reasonable basis.

Impact on ear-marked schemes

At present there is no requirement for the trustees of ear-marked schemes to obtain audited accounts, although there is currently still a requirement to obtain an auditor's statement about contributions and for the trustees to prepare an annual report complying with the disclosure regulations. If it is proposed to remove the auditor's statement requirement from some (or all) schemes, some of these schemes will be earmarked schemes, for which there will then be no required interaction with auditors. We would suggest therefore one of the following courses of action:

- Dispense with the need for an ear-marked scheme to appoint auditors altogether, with no other changes to trustees' annual report requirements (Our preferred option); or
- Dispense with the need for an ear-marked scheme to appoint auditors altogether, but with enhanced disclosure requirements (unaudited) to increase the level of transparency to members about the payment of contributions, such as a statement of compliance with the payment schedule given by the trustees but not subject to auditor review.

Further comments on aspects of the draft regulations

Question 10: Do you have any comments on any aspect of these draft regulations?

Commencement date

Draft AA regulation 1 states that the regulations come into force on 1st April 2016.

As accounts covered by the regulations apply for the scheme year, accounting requirements are normally set in terms of periods beginning, or periods ending, after a commencement date. Such dates are normally significantly in the future where disclosure requirements increase, but where there is a reduction there is no harm, and indeed real advantage, in allowing their application as soon as possible.

It is recognised that a small proportion of accounts approved after this date may be prepared under the 2007 SORP. For example, accounts for the year ended 30 September 2015 do not need to be prepared under the 2015 SORP (as the period begins before 1 January 2015) and need to be approved by 30 April 2016. Based on the rationale for removing the requirement for adopters of the new SORP, it would not be appropriate to remove the additional requirements for adopters of the old SORP.

In order that as many schemes as possible do not have to produce additional disclosures based on the old AA regulations in their first year of adoption of the SORP (which is required for periods beginning on or after 1 January 2015), we would propose that the commencement date issue be dealt with in one of the following ways:

- Apply "in respect of accounts approved on or after 1st April 2016", but regulation 2(6) of the draft regulations be amended to state "Where the accounts have been prepared in accordance with the Statement of Recommended Practice (referred to in regulation 3A(6)) published in November 2014 or subsequently, the Schedule is omitted."; or
- Apply "in respect of scheme years commencing on or after 1 January 2015", i.e. the same period for which compliance with FRS 102 and the 2015 SORP is required (our preferred option).

Northern Ireland

The proposals in the consultation apply to England, Wales and Scotland, and we hope that the changes will be mirrored in corresponding changes to Statutory Regulations in Northern Ireland.

