

Professional Pensions

DC code denotes 'paradigm shift' in trustee knowledge requirements



The Pensions Regulator's (TPR) defined contribution (DC) code of conduct has created a "paradigm shift" in trustee knowledge requirements and leaves them far more open to criticism, industry experts claim.

Association of Member Nominated Trustees (AMNT) co-chair Barry Parr explained parts of the code would require more trustee knowledge than ever before.

Parr pointed to clause 132 of the code, which requires trustees to be clear about whether funds they are using are constituted as life funds or open-ended investment companies.

"For many trustees that's a whole new level of understanding," he said.

Trustees will also be expected to understand the security offered through funds and what the compensation arrangements are if things go wrong.

Parr said: "That is a complicated area. I agree trustees need to know about it but it's not easy to understand who has the risk in that area."

Silverman Sherliker partner Jennie Kreser explained how the move away from traditional defined benefit (DB) schemes towards a DC environment could leave trustees open to greater criticism.

"It's the trustees who are going to be selecting the funds which their members are going to be put into while at the same time the members are taking the risk," she said.

"The trustees are potentially going to be much more open to criticism from their members if they get their choice of funds wrong." Kreser added: "It's some of this basic financial education that needs to be increased. Trustees are probably going to find themselves potentially at greater risk because of this paradigm shift."

Pan Governance chief executive Steve Delo believes lay trustees should incorporate investment knowledge into the training delivered to them by consultants.

"That sort of technical detail could be way too much for lay trustees to get their heads around, even though in DC it is very important to understand exactly what your vehicles are and how they behave in different circumstances and what the technical implications are," he said.

Delo said the knowledge gap may also extend to professional trustees, especially as DC is a "very different animal" to DB and requires a new focus and different skillset.

"Standards of DC governance fall well below DB governance and you can't just say because you've got a DB trusteeship you should then be on a DC trusteeship," he said.