



# Implementation Statements Guidance

August 2020



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# Introduction



Since October 2019 trustees have had to update their Statement of Investment Principles (“SIP”) to take account of the requirements of the amended Investment Regulations



## Policy disclosures required within the Annual Report

To recap, the amended Disclosure Regulations require certain policy disclosures to be included within annual reports. The changes to the contents of the SIP mean trustees will have to include these new policies in the first Annual Report that they prepare on or after 1 October 2019 – similar to how they previously disclosed, for example, their policy on the custody of the scheme’s assets; details of any investments which were not made in accordance with the Statement of Investment Principles and review of the investment performance.

## NEW: Implementation statements

Legislation now includes provision which comes into force on 1 October 2020 requiring trustees to produce an implementation statement as part of their Annual Report. The content of the implementation statement depends on the type of scheme:

### Relevant schemes (DC and Hybrid):

- How, and the extent to which, the SIP has been followed during the year;
- Describe any review of the SIP undertaken during the year; and any change made to the SIP during the year. If there has been no statutory review in the year then state the date of the last such review; and
- Description of voting behaviour by or on behalf of trustees (including most significant votes cast) and state any use of proxy voter during the year.

DC/Hybrid implementation statements should be included in the first annual report produced from 1 October 2020 and published online from that date.

### DB schemes:

- Set out how, and the extent to which, in the opinion of the trustees, the exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters) has been followed during the year, and
- Describe the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year.

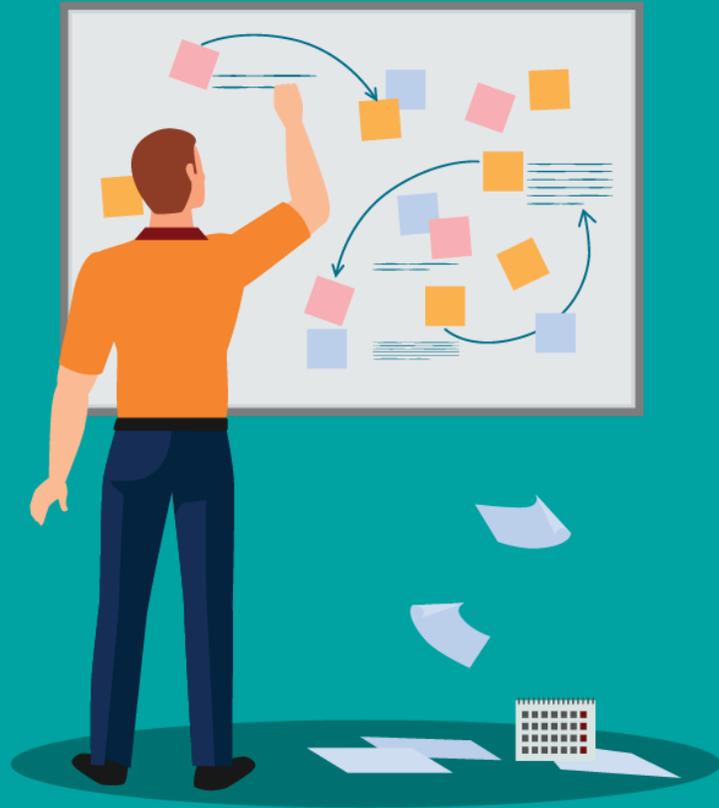
DB implementation statements should be included in the first annual report produced from 1 October 2020.

By 1 October 2021 DB schemes are required to publish their implementation statement on a publicly available website.

Trustees therefore need to consider the timing of the statement carefully and liaise closely with investment advisers if they haven’t already done so.

# SIP requirements by 1 October 2020

## Additional information



Provide additional information in the SIP on engagement activities, including trustees' methods of monitoring and managing capital structure and actual / potential conflicts of interest



The SIP to include a policy in relation to the trustees' arrangement with any asset manager, setting out the following matters or explaining the reasons why any of the following matters are not set out:

- How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with trustees' policies;
- How that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term;
- How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with trustees' policies;
- How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range; and
- The duration of the arrangement with the asset manager.

# DB schemes

## Requirements



Has the statement described the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and stated the use of any services of a proxy voter during that year?



Has the statement set out how, and the extent to which, in the opinion of the trustees, their policy in relation to:

- The exercise of the rights (including voting rights) attaching to the investments; and
- Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage **with relevant persons** about **relevant matters**)

has been followed during the year?



**“Relevant matters”** includes (but is not limited to) matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance; and

**“Relevant persons”** includes (but is not limited to) an issuer of debt or equity, an investment manager, another stakeholder or another holder of debt or equity.

# DC / Hybrid schemes

## Requirements



01

Has the statement set out how, and the extent to which, in the opinion of the trustees, the statement of investment principles required under section 35 of the 1995 Act has been followed during the year?

02

Has the statement described any review of the statement of investment principles undertaken during the year in accordance with regulation 2(1)<sup>(a)</sup> of the Investment Regulations and any other review of how the statement of investment principles has been met?

03

Has the statement explained any change made to the statement of investment principles during the year and the reason for the change?

04

Has the statement explained that where no such review was undertaken during the year in accordance with regulation 2(1) of the Investment Regulations, the date of the last review is given?

05

Has the statement described the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and stated any use of the services of a proxy voter during that year?

06

Has the statement described how the trustees have developed their policies on voting and engagement, including the relevance of investment beliefs underpinning those policies and their investment time horizons?

- Note: (a) Where regulation 2(1) states that the trustees of a trust scheme must secure that the statement of investment principles prepared for the scheme under section 35 of the 1995 Act is reviewed:
- at least every three years; and
  - without delay after any significant change in investment policy.

# Special considerations



- Pooled investment vehicles vs segregated investments
- Active / Passive
- Fiduciary Manager appointed
- Platform providers
- Stewardship roles and responsibilities
- Manager review and selection
- Statements will be scheme specific

## Audit responsibilities:

# Implementation statement

## ISA (UK) 720



## 01

Our responsibilities towards the implementation statement are similar to our approach to other content of the trustees' report. It is read and checked for consistency with the financial statements and our knowledge gained throughout the audit process. Auditors should ensure that they are familiar with the specific circumstances of their scheme and the legislative requirements that apply.

## 04

There is no regulatory requirement for the implementation statement to be audited. In the absence of a separate requirement, the auditor's opinion does not cover other information and the auditor has no specific responsibility for determining whether or not other information is properly stated.

## 02

ISA (UK) 720 deals with the auditor's responsibilities relating to other information in documents containing audited financial statements and the auditor's report thereon and therefore applies to our approach in auditing the implementation statement. The auditor should read the other information to identify material inconsistencies, if any, with the audited financial statements.

## 05

However, the auditor reads the other information because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information.

## 03

The auditor is not expected to verify any of the other information. The audit engagement partner (and, where appropriate, other senior members of the engagement team), reads the other information with a view to identifying significant misstatements therein or matters which are inconsistent with the financial statements.

## 06

The auditor may also identify misstatements of fact in other information (which is unrelated to matters appearing in the financial statements), such as incorrect statements or presentation.

# What actions do Trustees need to take?

Start planning – asset managers will be inundated with requests

Determine when accounts are to be signed

Talk to advisers



Key date = 1  
October 2020



# PLSA Guidance August 2020



## Planning the implementation statement

1. Agree which deadlines are applicable to the scheme
2. Confirm which policies from the SIP are required to be covered by the implementation statement for the relevant period
3. Decide the purpose of, and audience for, the implementation statement
4. Agree the level of resource required
5. Agree the approach



## Producing the implementation statement

1. Identify the SIP(s) relevant to the reporting period
2. Decide which areas in the SIP will need to be reported against
3. Decide what information is needed, from whom and by when
4. Assemble and review information, and decide what is relevant
5. Review with relevant parties

The following slides are only extracts from the PLSA Guidance – we advise clients to read the whole document, which is available at the following link:

[Implementation Guidance for trustees](#)

# PLSA Guidance August 2020 (cont.)

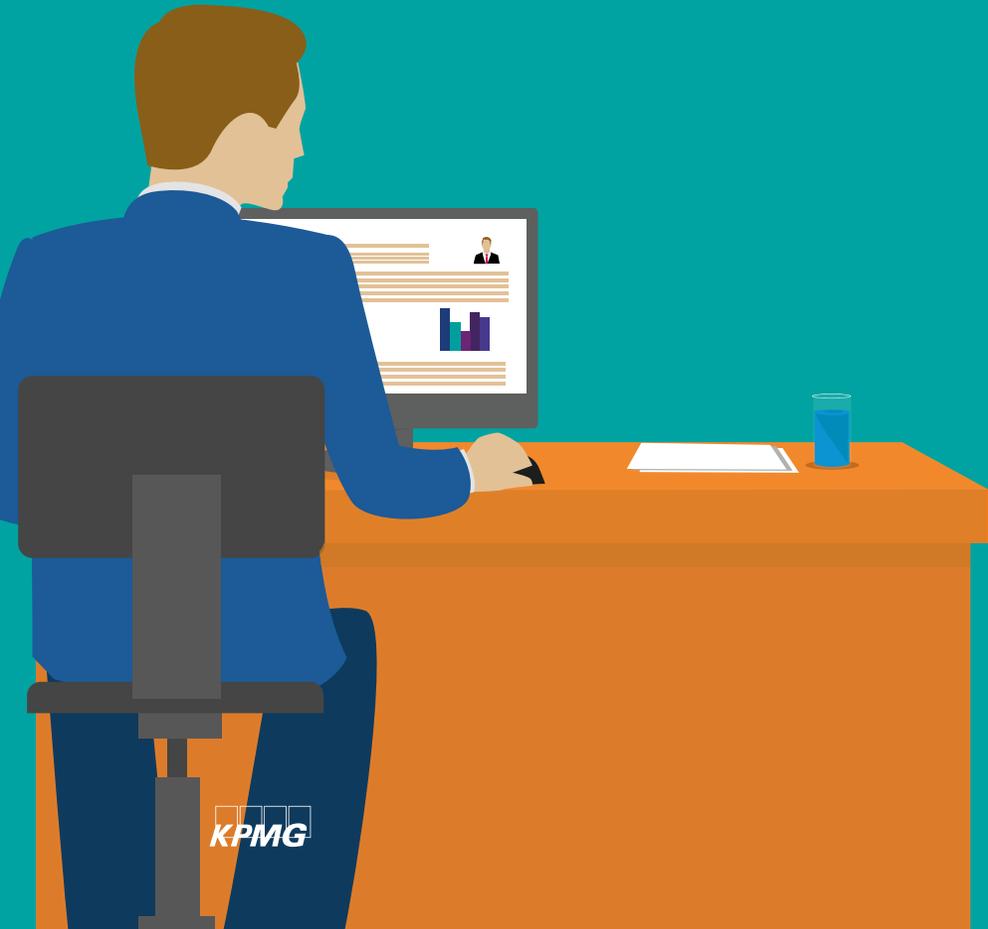
**PLSA believes that every Implementation Statement should follow these key rules:**



- It flows directly from the SIP
- It is based around actions taken and decisions taken during the year
- It focuses on those activities and decisions which have most “moved the dial”. The best statements are likely to be focused, succinct and revolve around those decisions, actions and changes which have had or will have the most material impact in achieving the objectives
- The level of detail is appropriate to the audience
- It clearly articulates how trustees have sought to hold their service providers to account (engage, influence, challenge)
- It provides a clear rationale for where implementation departed from the SIP

# PLSA Guidance August 2020 (cont.)

## Useful considerations:



- **Investment governance** – Trustee Board /TKU / Processes around managing investments.
- **Approach to non-financial matters** – Trustees should take legal advice before taking into account member views etc. (specific legislation in place).
- **Strategic asset allocation** – Disclose any major changes to their strategic asset allocation approach over the course of the year and the rationale for this change or decision. If no significant action has been taken, this should be stated up front.
- **Mandate parameters** – Trustees should disclose any major decisions and actions taken on the type of mandate and approach and how this has helped, or is expected to help, them achieve their investment policies and objectives.
- **Manager selection, review and monitoring** – Trustees may wish to disclose the approach taken to any manager selection exercises over the year, as well as any changes in the actions undertaken to review and monitor managers.

# PLSA Guidance August 2020 (cont.)

## Voting Disclosures



- Trustees to explain how their policies have been amended and followed during the year, but also provide a description of the voting behaviour undertaken either directly or on their behalf
- PLSA Vote Reporting Template – to be issued shortly
- Different mechanisms for segregated / pooled investments
- Trustees should be clear about who 'owns' the vote
- Disclosures will need to be reported afresh in each statement

# PLSA Guidance August 2020 (cont.)

**Voting Disclosures - Trustees should, in their Implementation Statements, cover:**



- How the trustees' equity holdings are structured
- How the way in which the investment arrangements are structured affect trustees' scope and ability to engage with managers and influence managers' voting approach
- Whether trustees have a legal right to the underlying votes in the existing investment arrangement structure, which could include:
  - Segregated mandates in segregated custody accounts
  - Segregated mandates in pooled custody accounts
  - Pooled mandates in segregated custody accounts
  - Pooled mandates in pooled custody accounts
  - Via-platform investments
- Which funds hold equities (these should be listed)
- A description of the voting process in the scheme or its underlying funds, including to what extent did the trustees or managers use the recommendations of proxy voting advisory services to inform their voting decisions?
- An overview of the votes cast during the year, e.g. the number of votes available, the number exercised, the number that were cast for and against, and the number of abstentions (votes withheld)
- A description of their view as to the "most significant" votes cast during the year and the managers' rationale for their inclusion as significant

# PLSA Guidance August 2020 (cont.)

## Investment Communications – Top Tips:



- Clean up your data
- Decide one way of telling your story and stick to it
- Use different ways of getting the information out there
- Don't underestimate the journey from 'savings' to 'investment'
- Give everyone the big picture, then zoom in to tailor it as much as you can
- Be clear to each segment of your audience about what is relevant to them
- Consider how open you want to be on longer-term plans
- Talk like a human
- Take a two-way approach



### Guidance also gives Top Tips for Responsible Investment communications

# DC Investment Governance Guide



The following slides are only extracts from the TPR Investment Governance Guide– we advise clients to read the whole document, which is available at the following link:

[TPR DC Investment Governance Guide](#)

TPR Guidance	
<b>DC/Hybrid</b>	The time and resource you dedicated to the process, including details of any relevant sub-committees and advice taken.
<b>DC/Hybrid</b>	How those policies have been implemented in practice, for example: <ul style="list-style-type: none"> <li>— actions taken with investor coalitions (for example, on climate change, the Institutional Investors’ Group on Climate Change, or the CA100+), including leadership roles as part of any such coalitions</li> <li>— a review of investment manager mandates, perhaps resulting in a decision to replace an existing manager with one whose engagement policies were in line with those of the scheme</li> <li>— how the shares owned by the scheme have been voted on, including in relation to significant votes and use of proxy advisers</li> <li>— engagements undertaken, together with their purpose, objectives, and planned escalation strategies where relevant.</li> </ul>
<b>DC/Hybrid</b>	Public policy work undertaken.
<b>DC/Hybrid</b>	Lessons learned in engaging with specific assets on specific issues.
<b>DC/Hybrid</b>	The relative effectiveness of these actions in achieving their aims.



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