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WIRRAL

Pensions Committee

Date:	**Monday, 18 September 2017**
Time:	**6.00 pm**
Venue:	Council Chamber - Birkenhead Town Hall

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AGENDA

1. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members of the Committee are asked to declare any disclosable pecuniary and non pecuniary interests, in connection with any item(s) on the agenda and state the nature of the interest.

2. MINUTES (Pages 1 - 12)

To approve the accuracy of the minutes of the meeting held on 17 July 2017.

3. LGPS UPDATE (Pages 13 - 20)

4. POOLING UPDATE & JOINT COMMITTEE REPRESENTATION (Pages 21 - 24)

5. INVESTMENT PERFORMANCE 16/17 (Pages 25 - 28)

6. MIFID II OPT UP (Pages 29 - 50)

7. GENERAL DATA PROTECTION REGULATIONS (Pages 51 - 56)

8. TRAINING POLICY (Pages 57 - 62)

9. LAPFF CONFERENCE (Pages 63 - 66)

10. ANNUAL EMPLOYERS CONFERENCE (Pages 67 - 70)

11. PENSION BOARD MINUTES 27/06/2017 (Pages 71 - 84)

12. SYSTEMATIC INVESTMENT (Pages 85 - 88)

13. GRWP MINUTES 06/07/2017 (Pages 89 - 92)

14. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The following items contain exempt information.

RECOMMENDATION: That, under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined by the relevant paragraphs of Part I of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

15. SYSTEMATIC INVESTMENT EXEMPT APPENDIX (Pages 93 - 104)

16. GRWP EXEMPT MINUTES 06/07/2017 (Pages 105 - 110)

17. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR

PENSIONS COMMITTEE

Monday, 17 July 2017

Present:	Councillor	P Doughty (Chair)	
	Councillors	G Davies	G Watt
		T Jones	K Hodson
		AER Jones	C Povall
		B Kenny	P Cleary
		B Mooney	
	Councillors	P Lappin, Sefton Council	
Apologies	Councillors	J Fulham, St Helens Council	
		Mr P Cleary, Unison	

1 **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

Members were asked if they had any pecuniary or non-pecuniary interests in connection with any application on the agenda and, if so, to declare them and state the nature of the interest.

Councillor George Davies declared a pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

Councillor Paul Doughty declared a pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

Councillor Tony Jones declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor Paulette Lappin declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor Geoffrey Watt declared a pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

2 **FOSSIL FUEL MERSEYSIDE - QUESTIONS TO THE PENSIONS COMMITTEE**

The Chair of the Pensions Committee welcomed members of the public to the meeting. Prior to the meeting questions had been put to the Committee regarding the Fund's investment in Fossil Fuels and renewable energy. The Chair of the Committee indicated that the Director of Pensions would present a short statement responding to the specific questions raised on the Fund's renewable investments. The Chair commented that he was proud that the Fund was a leader in working with renewable energies – far more than other pension schemes and it was happy to engage with attendees. He proposed that a meeting be diarised with the group's

representatives, the Chair of the Pension Committee, the Director of Pensions and the Funds Responsible Investment Officer, Owen Thorne to discuss this issue in further detail. Members of the public addressed the Committee and commented that things were moving in the right direction and thanked members for listening.

3 **MINUTES**

Resolved – That the accuracy of the Minutes of the Pensions Committee held on 21 March, 2017 be approved as a correct record.

4 **AUDIT FINDINGS REPORT**

Members gave consideration to the Audit Findings Report 2016 - 2017 prepared by Grant Thornton UK LLP. Grant Patterson, Engagement Lead, attended the meeting and reported upon the key issues contained in the report and responded to Members questions.

It was reported that the audit was now substantially complete and it was anticipated that an unqualified audit opinion would be provided in respect of the financial statements as shown in Appendix A: Audit opinion of the report.
The report confirmed that there were no significant facts or matters that impacted on the independence as auditors that were required or wished to be drawn to the Committee's attention.

Resolved – That the report be noted.

5 **STATEMENT OF ACCOUNTS 2016/17 AND LETTER OF REPRESENTATION**

Members gave consideration to a report of the Section 151 Officer that presented Members with the audited statement of accounts of Merseyside Pension Fund for 2016/17 and responded to the Audit Findings Report from Grant Thornton.

Donna Smith, Group Accountant, informed the Committee that subject to outstanding work, Grant Thornton had indicated there would be an unqualified opinion and there were no adjustments affecting the Fund's reported financial position for the year ended 31 March 2017 of net assets of £8.2bn and no recommendations.

It was reported that Grant Thornton's report had expressed a positive outcome from their audit of the accounts and referred to the accounts being prepared to a good standard with good supporting working papers.

Members noted that the Statement of Accounts, including notes had been prepared and available for audit by 31 May 2017, a month ahead of the statutory deadline. The audit had also been undertaken to a revised timetable, in preparation for revised statutory deadlines that come into force for 2017/18 reporting.

Resolved – That

1. having considered the amendments to the accounts, the Audit Findings Report and the Letter of Representation the audited Statement of Accounts for 2016/17 be approved.

2. **the recommendations be referred to the Audit and Risk Management Committee.**

3. **congratulations be offered to Donna Smith, Group Accountant and the team for producing this work within the timescale.**

6 **DRAFT ANNUAL REPORT AND ACCOUNTS**

A report of the Managing Director Delivery provided Members with the draft Annual Report of Merseyside Pension Fund for 2016/17.

It was reported that the LGPS regulations required the Pension Fund Annual Report to contain the Fund Accounts and Net Asset Statement with supporting notes and disclosures, prepared in accordance with proper practices.

International Standards on Auditing (UK&I) 810 (revised) required that auditors read any information published with the accounts. It also stated that the auditor should not issue an opinion until that other information was published.

The Fund's Statement of Accounts and the auditor's Audit Findings Report were separate items on the agenda and provided additional assurance that the annual report had been subject to independent scrutiny.

Resolved – That;

1. **the draft Annual Report of Merseyside Pension Fund for publication be approved.**
2. **Donna Smith, Group Accountant and the team be thanked for the work involved in producing the report.**

7 **BUDGET OUTTURN 16/17, FINAL BUDGET 17/18**

Members gave consideration to a report of the Managing Director of Delivery that requested that Members note and approve:

- the out-turn for the financial year 2016/17.
- the finalised budget for the financial year 2017/18.
- the 3 year budget for MPF as required for the annual report.

It was reported that the actual out-turn for 2016/17 was £19.8m, higher than the original budget approved 4 July 2016 of £19.2m and in line with the projected out-turn of £19.7m as reported at Pensions Committee on 23 January 2017.

The 2017/18 budget reported in January had been updated to reflect proposed staffing changes at the Fund, along with revised salary overheads and departmental & central support charges; the finalised 2017/18 budget was £20.9m.

It was reported that the Pensions Committee, at its meeting on 23 January 201,had received an estimate of the out-turn for 2016/17 attached as appendix 2 of the report and it was also agreed that the Managing Director for Delivery would report back on the final out-turn. The finalised out-turn was included in appendix 1 to the report. The

actual out-turn for 2016/17 was higher than the projected out-turn reported in January 2016, due to the number of estimates required for the January report.

Pensions Committee at its meeting on 25 January 2016 had agreed the budget for 2017/18 subject to confirmation of departmental & central support charges. It was agreed to report back to Committee with the finalised budget.

The finalised budget is included in this report in appendix 1 of the report.

Resolved – That;

1. the out turn for 2016/17 be noted.

2 the finalised budget for 2017/18 be approved.

3 other issues for inclusion in the 2016/17 Annual Report including 3 year financial estimates be approved.

8 **LGPS UPDATE**

A report of the Managing Director for Delivery provided an update to Members on the current position concerning potential amendments to the Local Government Pension Scheme and overriding pension policy that could affect scheme administration.

A synopsis of the prospective changes to the legislation was attached as Appendix 1 to the report.

The report also raised awareness of the publication of the 2016 LGPS Annual Report, gave details of scheme trends at a national level and a number of issues relating to governance of the Scheme; including difficulties faced by Academies in fulfilling their employer responsibilities as a consequence of non-standardised administrative and funding policies across the LGPS. It also advised of surveys by the Scheme Advisory Board and the Pensions Regulator with governance a particular focus.

Resolved – That the report be noted.

9 **POOLING UPDATE**

Members gave consideration to a report of the Managing Director for Delivery that provided Members with an update on pooling arrangements relating to MPF and the Northern Pool.

DCLG had requested that, by 21 April, all Pools provide a report on progress. A copy of the Northern Pool's report was attached as an exempt appendix to the report as it contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

Resolved – That the report be noted.

10 TRANSPARENCY CODE

Members gave consideration to a report of the Director of Pensions that provided details of the Code of Transparency that had recently been announced by the Scheme Advisory Board.

It was reported that it had long been recognised that, in addition to the fees paid for investment management, there were further hidden costs incurred that were difficult to ascertain and so rarely reported in most pension fund accounts. There had been a number of initiatives to provide greater transparency in relation to those hidden costs. Merseyside Pension Fund had been a longstanding supporter of transparency in many areas of corporate governance and investment, and had been a proponent for greater consistency in the disclosure and reporting of all costs.

In November 2015, DCLG had set out its criteria and guidance for Investment Reform in the LGPS requiring administering authorities to bring forward ambitious proposals for pooling. One of the four primary criteria was cost savings and pools would be required to report investment performance and cost savings. It was important that this is undertaken in a consistent way.

On 18 May 2017, the Scheme Advisory Board had announced its proposals for encouraging greater fee transparency by investment managers. The Board viewed the move toward investment cost transparency and consistency as an important factor in the LGPS being perceived as a value-led and innovative pension scheme. Transparency was also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and was included in the government's investment reform guidance and criteria for LGPS pooling.

The Code was a voluntary code and covered the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities.

To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board had worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code.

It was noted that the Code was voluntary but it was anticipated that it would be adopted widely and pension funds were engaging with asset managers to encourage their participation. The current Templates only applied in relation to listed asset classes. Templates for unlisted asset classes such as private equity would be developed in due course. Peter Wallach, Director of Pensions, informed the Board that as this was likely to be a protracted period, the Fund was committing considerable resource to ensure costs relating to unlisted assets were collated.

Resolved – That the report be noted.

11 PENSION BOARD ANNUAL REPORT

Members gave consideration to a report of Mr John Raisin, Independent Chair of the Local Pension Board that had been prepared in accordance with the Terms of Reference of the Pension Board and reviewed the performance of the Board and its

members during its second year. The second year of the Board had been taken as from 1 May 2016 to 31 March 2017. The report also included a proposed Work Plan for 2017-18.

Under Section 11.3 of its Terms of Reference the Board was required to produce, on an annual basis, a report for consideration by the Scheme Manager which was the Wirral MBC Pensions Committee. This review had been prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 27 June 2017. Following consideration and approval by the Board the approved version of this review was presented to the Pensions Committee by the Independent Chair to the Pensions Board.

As the Board Members had been appointed on 15 May 2015 the review of the first year of the Board (2015/16) had covered the period 15 May 2015 to 30 April 2016. This review therefore of the second year of the Board (2016-17) covered the period 1 May 2016 to 31 March 2017.

Mr Raisin outlined the key points of the report and noted that the items considered had been agreed by the 9 members of the Board in its Work Plan.
There were no recommendations to be made to the Pension Committee at this time and he highlighted that members had contributed positively to the work of the Board.

The Independent Chair also acknowledged the positive contribution that had been made by Mr Phil Goodwin, Employee Representative, who had died suddenly and unexpectedly in October 2016. Mr Raisin referred to the Pension Board costs of operation 1 April 2016- 31 March 2017 and also the proposed Pension Board Work Plan 2017-2018 which would be updated as necessary. He concluded his summary of the report by placing on record his appreciation and thanks to the Director of Pensions and officers who had been extremely helpful. The Chair of the Pension Committee commented that the Board worked well and noted that Members of the Pensions Committee were grateful for the work that it undertakes.

Resolved – That;

1. the Pension Board Review 2016-17 be received and approved.

2. the proposed Work Plan 2017-18 be approved.

12 **ISS GUIDANCE UPDATE**

A report informs of the Managing Director for Delivery informed Members of a High Court ruling that impinged on the guidance issued by the Secretary of State in relation to investment strategy statements.

Peter Wallach, Director of Pensions reported that in September last year the DCLG had issued statutory guidance on preparing and maintaining an investment strategy statement (ISS).

Following a case brought by the Palestine Solidarity Campaign, the High Court had ruled on judicial review that the section on boycotting foreign nations and the UK defence industry in the DCLG statutory guidance on preparing and maintaining an investment strategy statement published in September last year was unlawful.

The reason given was that the Secretary of State had exceeded his regulation making powers by using the guidance to protect government foreign policy and UK defence policy, which, in the judges view, were not policies for "pension purposes" The Secretary of State was held to have acted for an unauthorised purpose and therefore unlawfully. Although not expressly referred to in the judgment, the inference was that that part of the statutory guidance referred to in paragraph 1 of the judgment was struck out.

The High Court had also been asked to judge whether (a) the guidance lacked clarity and certainty and (b) whether Article 18(4) of the 2003 IORP Directive applied to prevent the Secretary of State from imposing a form of approval before investment decisions were made. On both matters, the judge had ruled in favour of the Secretary of State.

Peter Wallach, Director of Pensions, informed Members that this would have no direct implication for the Pension Fund and the ruling would not affect the Fund's ISS which had been approved by this Committee in March of this year.

Resolved – That the report be noted.

13 **PENSIONS ADMINISTRATION STRATEGY**

A report of the Managing Director for Delivery informed Members of the revised Pension Administration Strategy (PAS) and the intent to consult with employers as required by the Regulations subsequent to Pension Committee's approval of the proposed changes to the policy and operational practice.

The draft PAS for consultation was attached as Appendix 1 to the report and it was reported that the revised PAS would be applicable from April 2018.

Resolved – That;

1. **the draft PAS and proposed charging schedule for consultation with employers be approved.**

2. **in order to enable the effective implementation of the Strategy from 1 April 2018 Fund Officers be delegated the responsibility to respond to consultation feedback.**

14 **TREASURY MANAGEMENT ANNUAL REPORT**

Members gave consideration to a report of the Managing Director, Delivery that presented a review of treasury management activities within Merseyside Pension Fund (MPF) for the 2016/17 financial year and reported any circumstances of non-compliance with the treasury management strategy and treasury management practices. It had been prepared in accordance with the revised CIPFA Treasury Management Code.

It was noted that Treasury Management in Local Government was governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context was the "management of the Fund's investments and cash flows, its banking,

money market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".

On 25 January 2016 Pensions Committee had approved the Treasury Management Policy and Strategy 2016/17.

The report related to money managed in-house during the period. It excluded cash balances held by investment managers in respect of the external mandates and the internal UK and European investment managers.

It was reported that the Treasury Management Code required public sector authorities to determine an annual Treasury Management Strategy and, as a minimum, to report formally on their treasury activities and arrangements mid-year and after the year-end. These reports enabled those tasked with implementing policies and undertaking transactions to demonstrate that they had properly fulfilled their responsibilities and enabled those with responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives. The requirement to report mid-year was met via regular reports to the Investment Monitoring Working Party (IMWP).

Resolved - That the Treasury Management Annual Report for 2016/17 be agreed.

15 **PLSA CONFERENCE**

A report of the Managing Director, Delivery requested nominations for members to attend the Pensions & Lifetime Savings Association (PLSA) formerly National Association of Pension Funds (NAPF) Annual Conference & Exhibition 2017 to be held in Manchester from 18 October to 20 October 2017. A link to the programme was included in the report;

http://plsa.co.uk/Conferences_and_Seminars/Annual_Conference_And_Exhibition/Programme.aspx

Resolved – That attendance at the PLSA Annual Conference be approved and the Director of Pensions arrange for members be circulated with details of the event.

16 **FUNDAMENTALS TRAINING**

A report of the Managing Director Delivery recommended the Committee to approve participation by Members in the LGPS Trustee Training 'Fundamentals XVI' organised by the Local Government Pensions Committee.

The fundamentals course was run on an annual basis and provided an insight to LGPS 'trusteeship' for newly elected Committee members whilst also serving as an update/refresher course for longer-serving members. The course would be of three days duration, spread over a number of months at three locations around the UK. As identical material is delivered at each location, it would be possible to attend the course by visiting different locations should delegates' diaries not allow attendance on all three days at a particular location. Dates for this training would be confirmed to members.

The Chair of the Committee encouraged members to attend this training event and it was;

Resolved – That;

1. **attendance by Members on the 'Fundamentals training' be approved.**

2. **Members wishing to take advantage of this opportunity notify the Director of Pensions to enable the necessary registration and administration to be undertaken.**

17 **LGC INVESTMENT SUMMIT**

Members gave consideration to a report of the Managing Director, Delivery that requested nominations for members to attend the Local Government Chronicle (LGC) Investment Summit, to be held in Newport from 6 to 8 September 2017.

It was reported that the conference would be themed "Navigating the New Landscape" and would provide critical insight to the ongoing debate about the future investment of pension funds in Local Government.

Members were informed that attendees would benefit from essential keynote presentations and topical breakout sessions on investment themes, as well as valuable networking opportunities to share concerns with peers and fund managers.

A draft agenda for the conference was attached to the report. It was noted that MPF had been represented at all previous LGC Investment Summits usually by the Chair of Pensions Committee and party spokespersons.

Resolved – That attendance at the Local Government Chronicle (LGC) Investment Summit be approved and the Director of Pensions arrange for members be circulated with details of the event.

18 **MTAA UPDATE REPORT**

A report of the Managing Director for Delivery provided members with an update on progress to date with the Fund's Medium Term Asset Allocation Strategy (MTAA) and an explanation of the delay in retendering the contract.

It was reported that the MTAA Strategy had been initiated on 31st January 2014. The framework for the implementation of the MTAA Strategy had been presented to the Pensions Committee at its meeting on 10th September 2013.

The objectives of the framework were:

- To reduce the risk of underperformance caused by unintended asset allocation positions from the Fund's strategic benchmark.

- To implement in a timely fashion intended asset allocation positions from the Fund's strategic benchmark with a return target of 0.25% per annum on a rolling 3 year basis.

Details of the estimated costs for the MTAA strategy had been reported to the Pensions Committee in September 2014.

Members had approved additional expenditure to the current advisers Aon Hewitt the Fund's strategic investment consultant until such time as a formal tender exercise could be completed.

The procurement exercise had been included in the MPF Business Plans for 2015/16 and 2016/17. However, separate advisory services had not as yet been procured as a result of delays to the development of the "Norfolk Framework", a national consultancy framework. Members were informed that it was currently anticipated that the National Framework would be established by October 2017 and the Fund would be able to re-tender for the advisory work currently carried out by Aon Hewitt under the auspices of this framework.

Resolved – That the update to the Fund's MTAA strategy be noted.

19 **MONITORING OF INVESTMENT MANDATES**

Pensions Committee gave consideration to a report of the Managing Director for Delivery that advised members that officers of the Pension Fund were currently reviewing the existing monitoring regime across all investment mandates.

The original monitoring policy had been established and approved by Pensions Committee on 31 March 2008. The policy had subsequently been amended in a framework which had been approved by Pensions Committee in March 2012. The key changes made were to reflect the new mandates that the Fund had established since 2008 with the policy on "trigger points" and consequences remaining unchanged.

With the passage of time and the increasing importance of "alternative" assets within the Fund's strategic asset allocation structure, officers of the Fund were currently conducting a review of the existing monitoring policy with a view to making further changes to the overall framework in order to reflect the portfolio developments that had taken place since 2012.

It was reported that once this exercise is completed, an amended monitoring framework would be presented to Pensions Committee for approval.

Resolved – That the contents of the report be noted.

20 **TPR COMPLIANCE REPORT**

A report of the Managing Director, Delivery provided an update to Members on Merseyside Pension Fund's assessment of compliance against the Pension Regulator (tPR) Code of Practice No.14 in relation to the key areas of governance and administration that had been identified by the regulator as crucial in demonstrating effective stewardship of the Scheme.

The assessment was intended to provide assurance to committee in their capacity as the statutory body responsible for delivering the effective and efficient governance and administration of Merseyside Pension Fund.

The appendix to the report contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

It was reported that although there had been significant advances over the last twelve months in relation to record keeping and communicating with members, there remained scope for further improvement as both areas had been assessed as retaining their amber rating.

The proposed developments required to target full compliance were noted within the self-assessment document, attached as exempt Appendix One.

Members were informed that officers would keep both the Pension Committee and Pension Board apprised of progress achieved against the identified areas of improvement in relation to record keeping and communicating with members.

Resolved – That the Fund's self- assessment against the tPR Code of Practice and the developmental work required to attain full accreditation in relation to record keeping and member communications be noted.

21 **IMWP MINUTES 06/04/17 & 16/06/17**

A report of the Managing Director, Delivery provided Members with the minutes of the Investment Monitoring Working Party held on 6 April and 16 June 2017.

The appendix to the report contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

Resolved – That subject to the amendment to include the attendance of Councillor Brian Kenny to the minutes of the IMWP held on 16 June, 2017 that the minutes be noted.

22 **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

Resolved – That in accordance with section 100 (A) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business, on the grounds that it involved the likely disclosure of exempt information as defined by relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

23 **POOLING UPDATE EXEMPT APPENDICES**

The appendices to the report on Pooling Update were exempt by virtue of paragraph 3.

24 **TPR COMPLIANCE EXEMPT REPORT**

The appendix to the report on tPR Compliance was exempt by virtue of paragraph 3.

25 **IMWP EXEMPT MINUTES 06/04/17 & 16/06/17**

The appendix to the report on IMWP Minutes 09/04/17 & 16/06/17was exempt by virtue of paragraph 3.

26 **VENUE FOR NEXT MEETING OF THE PENSION COMMITTEE**

Members of the Committee discussed the venue of the next meeting of the Pensions Committee as this meeting had been arranged to be held in Birkenhead Town Hall instead of Wallasey Town Hall as access was easier by public transport. As it was hoped that this would facilitate the attendance of Co-opted members from other boroughs members agreed that the next meeting of the Pensions Committee on 18 September, 2017 be held in Birkenhead Town Hall.

WIRRAL COUNCIL

PENSION COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**LGPS UPDATE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**MANAGING DIRECTOR, DELIVERY**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report updates Members on the ongoing workstream of the Scheme Advisory Board's Administration and Communication Sub-Committee (ACSC) to consider the effectiveness of the ill heath retirement provisions under the LGPS regulatory framework.

1.2 It also sets out the current position on the public sector exit payment reforms, following the general election and the formation of the new Government.

2.0 BACKGROUND AND KEY ISSUES

Ill Heath Retirement Simplification

2.1 The Scheme Advisory Board (SAB) agreed that it was necessary to develop recommendations on a revised ill health retirement structure - in order to simplify the qualification criteria and the administrative process in determining a member's eligibility for ill health retirement.

2.2 The ACSC has been tasked to consider the options for change and to commission the Government Actuary Department (GAD) to assess whether the proposed revised structure would fall within the current cost envelope for ill health provision.

2.3 Current Ill health benefit structure

Qualification

A member who has met the two year Scheme vesting period and can meet the following criteria:

Step 1: as a result of ill-health or infirmity of mind or body, is permanently incapable of discharging efficiently the duties of the employment the member was engaged in, and

Step 2: is not immediately capable of undertaking any gainful employment will receive one of the ill health benefits as follows:

- **Tier 1**
  If the member would not be able to undertake gainful employment prior to Normal Pension Age (NPA) they would receive an immediate unreduced pension and an enhancement based on 100% of the pension accrual that could have been achieved to NPA.

- **Tier 2**
  If the member would be able to undertake gainful employment more than three years after retirement, but prior to NPA, they would receive an immediate unreduced pension and an enhancement based on 25% of the pension accrual that could have been achieved to NPA.

- **Tier 3**
  If the member would be able to undertake gainful employment less than three years after retirement they receive an immediate unreduced pension. Payment of these benefits will be stopped after 3 years, or earlier if the member is in gainful employment or has become capable of such employment.

2.4 Issues with the current structure

This three tier system presents an administrative burden to employers and administrators and is the cause for the majority of IDRP and Pension Ombudsman cases, due to its overly complex nature and inconsistent application, resulting in the dissatisfaction of scheme members.

Also, members who are permanently incapable of doing their own jobs, but who are immediately capable of gainful employment, do not receive an immediate pension, but rather deferred benefits.

2.5 Options for change to the benefit structure and cost envelope

The removal of the third tier was put forward to GAD for a costing based on the following metrics:

- **Preferred Option 1:** To remove the third tier of ill health and replace this with a permanent benefit

- **Preferred Option 2:** To remove the second step for qualification, i.e. the assessment of whether or not someone is capable of other gainful employment

  Adopting both of these options would incur additional scheme costs of 0.09% of pay which would have to be offset in one of the following ways, to ensure the revised ill health provisions are cost neutral:

- To reduce the ill health enhancement for Tier 1 benefits

- To reduce the enhancement for both the Tier 1 and Tier 2 benefits proportionally

- To move to a 5 year qualifying period for enhanced benefits.

2.6 The ACSC believed the 5 year qualification period is the most desirable option as it rewards longer scheme membership, it is simple and completely covers the cost (through a saving of 0.10% of pay).

2.7 The proposed options to reform the Ill health benefit provisions will result in a more straightforward qualification and administrations process as follows:

A member who meets the two year scheme vesting period whose employment is terminated by their employer on the grounds of ill health with an Independent Medical Practitioner (IRMP) certifying that *the member is, as a result of ill-health or infirmity of mind or body,* permanently incapable *of discharging efficiently* ***the duties of the employment the member was engaged*** *in,* would receive immediate payment of unreduced benefits.

If the member also meets the five year requirement for enhancement they would receive either:

Tier 1: Receive an enhancement based on 100% of the pension accrual that could have been achieved to NPA if they would not be able to undertake gainful employment prior to NPA

Or

Tier 2: Receive an enhancement based on 25% of the pension accrual that could have been achieved to NPA if they were only permanently incapable of doing their own job.

2.8 At the Scheme Advisory Board meeting of 26 June 2017 ACSC asked the Board to consider whether the above three preferred options should be recommended to the Secretary of State subject to consultation with employers and members. I will keep members apprised of the outcome of the board's decision at a future meeting of this committee.

2.9 Reform of Public Sector Exit Payments

It is the general consensus across the public sector that there is no policy change in respect of the various exit payment reforms that the Government were in the process of introducing prior to the snap election. However, given the focus on Brexit in the coming period it is unclear the extent to which pursuing each reform will be a priority for the Government. The implementation timescales the Government plan to adopt for each reform has not been disclosed.

2.10 Exit payment recovery

The draft regulations issued under the Small Business, Enterprise and Employment Act 2015 proposed that where an individual with a salary of £80,000 or more leaves a public sector employment and returns to work in the public sector within 12 months, they will be required to pay back some or all of the exit payments (including early retirement strain costs).

Prior to the announcement of the general election the final HM Treasury regulations that would have enacted the recovery provisions were expected "soon". When issued the regulations will be overriding, meaning that it will not be necessary to amend the LGPS regulations for the recovery provisions to have effect. For the recovery regulations to apply the individual must have both left and become re-employed in relevant public service employments on or after the effective date of the recovery regulations (i.e. the regulations will not be retrospectively applied).

2.11 Exit Cap

Where an individual leaves a public sector employment, the total exit payments that their employer can make in respect of that exit will be capped

at £95k. This cap includes the strain cost payable in respect of an LGPS pension coming into payment early.

It is expected that there will be further consultation (draft HM Treasury regulations) on how the cap will work in practice. The consultation is expected to last for 6-8 weeks and once final Treasury regulations are laid they will enact the relevant parts of the Enterprise Act 2016 and will amend the LGPS regulations.

2.12 Reform of Severance Packages

HM Treasury issued its formal response to the Government consultation on proposals to revise the overall severance packages payable from public sector bodies in September 2016. The response set out the broad criteria within which they expected responsible departments to reform the exit packages of their workforces.

It is necessary for DCLG to publish a consultation on the proposed package for local government to progress changes to policy.

3.0 RELEVANT RISKS

3.1 There is a risk that the proposals to simplify the ill health process could be challenged on the basis that the five year qualifying criteria for enhanced benefits may disadvantage members with short service who suffer serious ill health.

3.2 There is a risk that the introduction of the exit cap and measures to limit employer pension strain costs, could potentially inhibit local authority workforce planning and an increase, within the sector, of compulsory redundancies as opposed to voluntary redundancy exercises.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 None associated with the subject matter.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The proposed options to reform the Ill health benefit provisions would result in a clearer operational process, thus reducing the administration burden on both employers and the Fund in communicating as ill health decision outcome to a member.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because Department of Communities and Local Government undertake equality impact assessments with regard to the statutory reform of the LGPS.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION

13.1 That members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their stewardship function.

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BRIEFING NOTES HISTORY

Briefing Note	Date
The LGPS update is a standing item on the Pensions Committee agenda.	

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WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**POOLING UPDATE AND JOINT COMMITTEE REPRESENTATION**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides Members with an update on pooling arrangements relating to MPF and the Northern Pool.

1.2 Agreement 'in principle' is sought for the appointment of two Pensions Committee members to the Northern Pool Joint Committee subject to approval by Council of the final governance arrangements. It is recommended that the existing arrangements for the shadow board are formalised.

2.0 BACKGROUND AND KEY ISSUES

2.1 At the outset of the government's proposals for pooling of LGPS funds, a shadow joint committee was established to provide a forum for officers and elected members to develop proposals for the Northern Pool (the Pool). In the update brought to this Committee in July 2017, the project plan set out key milestones for the Pool including the formal establishment of a joint committee ahead of the April 2018 deadline for the Pool to become operational.

2.2 The Pool's preliminary submission to government in July 2016 set out high level proposals for governance which are reproduced below:

Governance
The proposed governance structure for the Pool is an oversight board, consisting primarily of representatives of the participating funds' pension committees, which will define key strategic objectives and provide scrutiny to an executive body of officers who will make the investment management decisions. Both the oversight board and the executive body will work closely with independent advisors.

The legal structure of the Pool Board is expected to be a joint committee.

All Pool Board members have equal voting rights.

In general, decisions of the Pool Board will be made by majority decision. Unanimous decisions will be required for any changes to governance arrangements

Role of Pool Board
The Pool Board will oversee all aspects of the operation of the Pool's Executive Body; it will not perform any FCA regulated functions. The Board will have oversight of the following:

- The implementation of participating funds' asset allocation instructions;
- The transition of existing fund investments into the Pool;
- Monitoring and benchmarking performance and reporting back to individual fund committees;
- Responsible Investment activities
- Engagement with the committees of participating funds to help drive efficiencies (for example providing details of what mandates already exist in the Pool and new mandates);
- Nominating representatives to national structures as appropriate (for example any national infrastructure board);
- Staffing requirements of the Pool.

The shadow joint committee has agreed employee representation through the trade unions once formally established.

2.3 Participation in the joint committee will be a key element of the Fund's oversight of the Pool and its operation. Considerable work remains to be done in terms of finalising the detail of governance arrangements and suitable terms of reference.

3.0 RELEVANT RISKS

3.1 Pooling will result in fundamental changes to oversight and management of LGPS assets. It is essential that appropriate governance arrangements are put in place to ensure that Pensions Committee can exercise its responsibilities in accordance with the Council's constitution.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 The Pooling consultation has been discussed with the Merseyside Directors of Finance and stakeholders have been kept informed of the pooling consultation and its implications.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are none arising directly from this report. The anticipated financial costs of establishing pooling arrangements and the projected savings over the long-term are set out in the Fund's pooling submission of 15 July 2016 and subsequent update of 21 April 2017.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members agree 'in principle' to the appointment of two Pensions Committee members to the Northern Pool Joint Committee subject to approval by Council of the final governance arrangements.

13.2 That officers continue to work with the Joint Committee to finalise governance arrangements for the Fund's participation in the Northern Pool, for approval by Council.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Pooling will result in fundamental changes to oversight and management of LGPS assets.

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APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
An update report is brought to each Pensions Committee	

WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**INVESTMENT PERFORMANCE**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR FOR DELIVERY**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report sets out the investment performance of Merseyside Pension Fund for the fiscal year ended March 2017.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Fund returned 21.45 per cent in the financial year to the end of March 2017 compared to its bespoke benchmark return of 17.79 per cent, an outperformance of 3.11 per cent.

2.2. Global geopolitical developments provided the most significant headwinds to investment markets over the financial year to the end of March 2017.

On June 23 2016 the United Kingdom voted to leave the European Union leading to a sharp correction in UK focused equity prices and a depreciation of sterling of around 7 per cent on a trade-weighted basis.

However, once the markets had digested the ramifications of the unanticipated referendum outcome, asset prices recovered over a short period and were given a further impetus by the Bank of England's Monetary Policy Committee on 4 August when it announced a package of measures to support the economy including a cut in Bank Rate and expanded asset purchases.

Markets were caught off guard for the second time over the period with the surprise result of the US election.

On 8 November the US S&P 500 futures plunged as much as 6 per cent, 10-year Treasury yields declined by almost 20 basis points, and the dollar weakened by 2 per cent against a basket of currencies.

Once again, markets recovered quickly and in the first few days after the election equity prices and bond yields rose on expectations of faster growth and higher corporate profits in the United States, and on an anticipated shift towards a more expansionary fiscal policy, lower taxes, and a relaxation of regulation. In particular, campaign pledges to launch a 1$trillion fiscal stimulus package equivalent to around

5 per cent of US GDP, and to cut personal and corporate taxes, added further momentum to an upward shift in market sentiment.

Notwithstanding the uncertainties of the general market environment investment returns were positive across all major asset classes over the period with risk assets (equities) outperforming traditional safe haven assets (bonds) and real assets such as property.

Stock markets throughout the developed world generated double digit returns with the United States and Japan returning over 30 per cent, Europe 25 percent and the UK over 18 per cent in sterling terms. The UK market benefited from the depreciation In sterling following "Brexit" given that around two thirds of revenues from the largest listed companies are generated overseas.

Bond markets, with higher inflation expectations and a rise in US interest rates priced in also generated positive returns with index linked bonds benefiting from heightened inflation expectations.

The annualised performance of the Fund against its benchmark over 1, 3 and 5 year periods is tabulated below.

	1 Year	3 Year	5 Year
MPF	21.45	11.44	10.72
Benchmark	17.79	9.19	8.63
Relative Return	3.11	2.06	1.92

3.0 RELEVANT RISKS

3.1 The performance of the Fund, relative to its benchmark, is a key indicator of the successful implementation of the Fund's investment strategy which is established with a view to meeting the Fund's longer term liabilities.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report

5.0 CONSULTATION

5.1 Not relevant for this report

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The Fund returned 21.45 percent in the financial year ending March 31st 2017 and outperformed its bespoke benchmark which returned 17.79 per cent over the comparable period.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly from this report

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no planning or community safety implications arising from this report.

12.0 RECOMMENDATION/S

12.1 Members note the report.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The performance of the Fund, relative to its benchmark, is a key indicator of the successful implementation of the Fund's investment strategy which is established with a view to meeting the Fund's liabilities over the long-term.

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APPENDICES

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
A report on the Fund's investment performance is brought annually to Pensions Committee	

WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID) CONSULTATION**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 A report was brought to this Committee in January 2017, setting out the implications for the Fund of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018. This report recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

2.0 BACKGROUND AND KEY ISSUES

2.1 Under the current UK regime, local authorities are automatically categorised as per se professional clients in respect of non-MiFID scope business and are categorised as 'per se' professional clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt up criteria'. The Markets in Financial Instruments Directive (MIFID) is the EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

2.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a "per se professional client" or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted-up by firms to an "elective professional client" status.

2.3 Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Potential impact

2.4 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

2.5 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

2.6 Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able even to discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

Election for professional client status

2.7 MiFID II does allow for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution. the quantitative and the qualitative test.

2.8 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

2.9. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as APPENDIX 2

2.10 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

2.11. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats...

2.12. A flowchart of the process is attached as APPENDIX 3 and the letter and information templates are attached as APPENDICES 4 and 5

2.13 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt up process and notify all institutions of any changes in circumstances which could affect their status. Examples would be if the membership of the committee changed significantly resulting in a loss of experience or if the relationship with the authority's investment advisor was terminated.

2.14 In order to continue to effectively implement the authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the authority has an existing or potential relationship with in relation to the investment of the pension fund.

2.15 The officer named in the recommendations should be granted the necessary delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

3.0 RELEVANT RISKS

3.1 As set out in sections 2.4 – 2.6, if the current proposals are implemented and local authorities are reclassified as retail investors there will be serious consequences for the effective implementation of pension fund strategies going forward

4.0 OTHER OPTIONS CONSIDERED

4.1 There are no other options as, once MIFID II takes effect from 3 January 2018, it will be a mandatory requirement.

5.0 CONSULTATION

N/A

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no outstanding previously approved actions.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are no implications arising directly from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The Fund has a significant number of relationships and considerable time and effort will be involved in corresponding with them and resolving issues that may arise.

9.0 LEGAL IMPLICATIONS

9.1 MIFID II is due to take effect on 3 January 2018.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are no planning or community safety implications arising from this report.

13.0 RECOMMENDATION/S

13.1 That Pensions Committee

i. Notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018

ii. Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.

iii. In electing for professional client status acknowledges and agrees to forgo the protections available to retail clients attached as APPENDIX 1.

iv. For the avoidance of doubt, agrees to approve delegated responsibility to Director of Pensions for the purposes of completing the applications and determining the basis of the application.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 That members are kept informed of the potential implications of MIFID II and the requirement to opt up to professional status.

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APPENDICES

APPENDIX 1 – Retail client protections
APPENDIX 2 – Summary of FCA policy statement
APPENDIX 3 – Opt up process flowchart
APPENDIX 4 – Opt up letter template

BACKGROUND PAPERS/REFERENCE MATERIAL

MIFID II FCA www.fca.org.uk

Local Government Pension Scheme Advisory Board - Response to Markets in

Financial Instruments Directive II Implementation Consultation Paper III

Local Pensions Partnership submission to HM Treasury 15 December 2016

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	January 2017

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Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment

knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document https://www.fca.org.uk/publication/policy/ps17-14.pdf

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions

2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment

3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test

4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion

5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions

6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.

7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged

8. Changed the portfolio size threshold to £10m

9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or

respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.
2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take "appropriate action". Neither MiFID II, nor our rules specify what 'appropriate action' is, which will depend on the facts of the case and what would be in the client's best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to

opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage **Finalise standard opt-up process**	**End July 2017**	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 **Local authorities to complete letter and questionnaire and send to investment firms**	**August – September 2017**	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 **Investment Firms to validate the information and run the client status assessment**	**September – October 2017**	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 **Dispatch the confirmation letter to LA clients confirming professional client status**	**October 2017**	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 **Client re-categorisation**	**3 January 2018**	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

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Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

Request to be treated as a professional investor

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the "Local Authority") to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

(a) any and all investment service(s) which it receives from you (the "Services"); and/or

(b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the "Fund Promotions/Investments").

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client ("Professional Client"). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client ("Retail Client") as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administrating authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

(a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.

(b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.

(c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.

(d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.

(e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.

(f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

……

[insert name and position] **[Authority]**

Schedule 1

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. **Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

(A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;

(B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

(C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. **Appropriateness**

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. **Fund promotion**

It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. **Non-mainstream pooled investments**

For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an "unregulated collective investment scheme". The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. **Communicating with clients, including financial promotions**

Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. **Financial Ombudsman**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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WIRRAL COUNCIL

PENSION COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**GENERAL DATA PROTECTION REGULATIONS (GDPR)**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**MANAGING DIRECTOR, DELIVERY**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report updates Members on the duties and obligations arising out of the General Data Protection Regulations which come into force on 25 May 2018.

1.2 The GDPR is a European Union (EU) directive that will govern how personal data should be held and processed by all 28 EU member states.

1.3 The UK Data Protection Act 1998 will no longer apply after 25 May 2018. The potential fines for infringement under the new legislation are substantial, up to 4% of annual global turnover or 20,000,000 Euros.

2.0 BACKGROUND AND KEY ISSUES

2.1 The EU's General Data Protection Regulation (GDPR) is a legal framework with the aim of boosting online privacy rights and strengthening the digital economy in the European Union. The GDPR brings harmonisation by applying the same set of Data Protection rules across the EU.

The changes are in response to how both globalisation and technological change have impacted how data is collected, stored, shared and transferred since the introduction of the Data Protection Act in 1998.

2.2 The GDPR will come into force in all EU Member States on 25 May 2018. The UK will still be a member state of the EU on the 25 May 2018 and the government announced on 21 June 2017 that it would implement the GDPR and retain the new legislation following Brexit.

2.3 The GDPR does not mark a radical departure from the current data protection regime (the UK Data Protection Act 1998). There is already a legal obligation on LGPS Administering Authorities to keep member data secure, but new legislation will have a significant impact on the obligations of Administering Authorities and the potential financial penalties for non-compliance.

Key changes for the Pension Fund under the GDPR

2.4 In summary, the key areas covered by GDPR are as follows:

	Key Changes	Description
a	Stricter requirements around consent	The Fund must be able to demonstrate openly and transparently to members that it has 'lawful consent' to hold and process their personal data in its duties to administer the Local Government Pension Scheme.
b	Privacy notices on the use of personal data	Privacy notices to be provided to members detailing : • how their data will be used; • third-party recipients of their data; • the various rights members have in respect of their data; and • the period for which the data will be stored.
c	Right to be forgotten	Where the data is no longer necessary for the purpose of administering the Scheme, members can request the complete erasure of personal data. The Fund will need to demonstrate clearly to a member when it cannot comply with that request as part of the overarching statutory duties to the LGPS and HMRC.
d	Relevant & necessary	Information must be relevant and not kept for longer than is necessary. Pension schemes typically keep information for decades, the Fund (and the LGPS community as a whole) will need to agree on what information

		should be retained and for how long.
e	Data Processing contracts with third parties	Currently data sharing agreements are required and in place with third parties; or 'Data Processors'. However, GDPR will impose direct liability on data processors requiring a review of current agreements and related supplier contracts.
f	Reporting data breaches	Personal data breaches must be notified to the Information Commissioners Office within 72 hours of having become aware of a breach. The member must also be notified if the breach is likely to result in a high risk to the member.
g	Increased record keeping obligations	The Fund must ensure records are maintained to show how they comply with the GDPR.
h	Subject Access Requests	An individual can request a copy of all personal data held by the Fund, currently this is required to be processed in 40 calendar days. The GDPR will shorten this timescale to one calendar month from receipt of the request.

Increase in Monetary Penalties for Non-Compliance

2.5 The Data Protection Act 1998 is enforced by the Information Commissioner's Office (ICO). The ICO can currently fine an organisation in serious breach of the act up to £500,000

2.6 The GDPR will introduce a new upper limit of 20,000,000 Euros or 4% of annual global turnover (whichever is the higher for the private sector).

Cyber Security & IT Contingency

2.7 As the Fund utilises computer systems to hold and process member records, the effective security and governance of these systems is fundamental to ensuring compliance with GDPR. This is particularly important as the Fund makes its strategic move to conduct more of its business with scheme members via internet based online systems. The online availability of personal information places the Fund at an increased risk of cyber-crime and being

subject to sophisticated cyber-attack, with the potential for high volumes of personal data being stolen.

2.8 Wirral Council as the Administering Authority provides the computer network infrastructure for the Fund. Fund Officers work closely with colleagues within 'Wirral Digital' on ensuring the security and availability of the computer systems and member data.

2.9 The Fund has in place system security, anti-virus software, data encryption and secure-email facilities as part of the services provided by Wirral Digital. Systems are regularly updated for security patches and backups of data are stored offsite.

2.10 Whilst there is considerable media focus on sophisticated cyber-attacks, the majority of data breaches are as a consequence of organisations failing to put robust security controls in place. The GDPR consequently reinforces the need for both 'technical' (computer software and physical security) and 'organisational' (work practices and employee training) measures to keep personal data safe.

2.11 All Fund staff annually undertake an e-learning course entitled "Responsibility for Information" as staff awareness of data protection is a significant part of ensuring ongoing compliance.

Partnership working to meet GDPR duties and obligations

2.12 Fund officers are working with colleagues in Legal & Democratic Services and Wirral Digital as part of the larger Administering Authority plan to meet the new duties and obligations of the GDPR.

2.13 However, Fund Officers are also actively engaged with colleagues at other Funds and the Local Government Association (on behalf of all Funds) in gaining a clear, coherent and consistent response to the demands of GDPR compliance. In particular, a key work area being worked on collaboratively is appropriate communications to scheme members for use in advance of May 2018.

2.14 In gaining the clear, coherent and consistent approach across the LGPS community, the LGA are commissioning legal opinion on a number of areas from Squire Patton Boggs (SPB). A number of these areas are in response to questions raised by officers as part of the partnership work with the LGA.

3.0 RELEVANT RISKS

3.1 Non-compliance with the organisational and security requirements of the GDPR from 25 May 2018 introduces the potential of significant reputational risk and monetary risk to the potential maximum of 20,000,000 Euros or 4% of annual global turnover.

3.2 The strategic move to conduct more of its business online places the Fund at an increased risk of cyber-crime and being subject to sophisticated cyber-attack, with the potential for high volumes of personal data being stolen. This risk is mitigated by the continued high priority commitment to computer security, robust organisational work practice and staff awareness training.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 None associated with the subject matter.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 Collaborative working with the LGA and other Funds continues the benefits that the Fund has experienced previously when sharing resources.

8.2 A number of questions have been raised by Fund officers to the LGA as part of the initial impact assessment of the GDPR. The LGA is meeting the expense of gaining legal opinion from Squire Patton Boggs.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because the General Data Protection Regulations have been assessed for equality by the European Commission whilst being formulated as a directive for EU states.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION

13.1 That members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their stewardship function.

REPORT Guy Hayton

AUTHOR Operations Manager
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BRIEFING NOTES HISTORY

Briefing Note	Date

WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**REVISED TRAINING & DEVELOPMENT POLICY**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report seeks approval for a revised training and development policy.

2.0 BACKGROUND AND KEY ISSUES

2.1 The CIPFA Pensions Panel has developed a technical knowledge and skills framework. The framework was adopted by Committee in 2010 as demonstrating best practice and enables the Fund to determine that it has the appropriate mix of knowledge and skills necessary. It also assists Members in planning their training and development needs.

2.2 Since Committee adopted the CIPFA framework, there have been a number of developments including the establishment of Local Pension Boards (LPB) and the Pension Regulator has developed an LGPS specific training toolbox. The implications of these changes were considered by elected members at the Governance & Risk Working Party on 6 July 2017 and it was recommended that the training policy set out in the appendix was revised to take account of the changing environment and, for example, the statutory requirements for LPBs to be adopted as best practice for Committee members.

3.0 RELEVANT RISKS

3.1 There are none arising from this report

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are no implications arising directly from this report. A training budget is approved annually by Committee.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That members approve the revised training and development policy.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 It is essential that members undertake training suited to their needs and that appropriate resources are available.

REPORT AUTHOR: ***PETER WALLACH***
DIRECTOR OF PENSION FUND
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APPENDICES

Appendix 1 Training & Development Policy

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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Annex One

Training and expenses policy for the members of Pension Committee

Introduction

Myners' first principle recommends that "decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively". Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities and should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively.

Legal Considerations

Elected members have a fiduciary responsibility to the Fund, scheme members and local council tax payers in relation to the Local Government Pension Scheme. They can delegate functions to officers but they retain overall responsibility for the management of the fund and its investment strategy.

Administering authorities are required to take proper advice to enable them to fulfil their obligations under the above regulations. "Proper advice" is defined in the regulations as "the advice of a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters…."

Training Policy and Plan

The Fund has had regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in drawing up this policy to ensure that all those involved in the decision making process receive all relevant training required to properly discharge their responsibilities.

The Fund arranges an annual programme of external and internal training events throughout the year designed to meet the requirements both of new members of the Committee and the ongoing needs of existing members.

These events are reported, formally, to Members on an annual basis. Individual reports, to authorise attendance by Wirral members at these events are put to Committee on an event by event basis.

Recommended Training

It is recommended that new members of Pensions Committee complete the following training before other events are undertaken:

1. The LGPS Trustee Fundamentals Training is organised by the Local Government Pensions Committee on an annual basis. The aim of the LGPC remains unaltered; that is to deliver a single training course covering all aspects of the Scheme, including both 'Benefits' and 'Fund' administration, as well as 'Investments' so that attendees can demonstrate compliance with the first of the six CIPFA principles and receive educational material in line with CIPFA's Pensions Knowledge and Skills Framework.

   The course is of three days duration, spread over a number of months at three locations around the UK. As identical material is delivered at each location, it is possible to attend the course by visiting different locations should delegates' diaries not allow attendance on all three days at a particular location.

2. An online training course provided in a Trustee Toolkit by the Pensions Regulator (TPR).

Policy for Payment of Expenses

The Fund will reimburse all reasonable costs and expenses incurred in undertaking approved training for all members of the Pensions Committee including the representatives of the active, deferred and pensioner members.

Claims should be submitted to the Fund and supported by an official receipt.

Members serving on the Committee from other local authorities or organisations may choose to continue to claim any such expenses from these bodies instead if they prefer.

WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**LAPFF CONFERENCE**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report recommends that the Committee approves attendance by the Chair and party spokespersons at the Local Authority Pension Fund Forum (LAPFF) Annual Conference, organised by PIRC, to be held in Bournemouth from 6 to 8 December 2017.

2.0 BACKGROUND AND KEY ISSUES

2.1 MPF is a member of LAPFF and its Annual General Meeting and annual conference provides a forum for Responsible Investment matters and topical issues affecting Local Authority Pension Funds to be discussed and addressed. With sustainability issues gaining a higher profile it is proposed that the arrangements pertaining last year are continued and invitations extended to party spokespersons as well as the Chair.

2.2 An agenda for the conference has not been published and will be circulated when available. However, it is expected that the conference will commence on the Wednesday afternoon and conclude around midday on the Friday.

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 LAPFF membership allows for two free conference places. Additional places will cost around £800 per head with travel costs an additional expense.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That attendance at the LAPFF conference by the Chair and party spokespersons be approved

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Attendance at this conference is a part of the development programme approved by Members in January 2017.

REPORT AUTHOR: ***PETER WALLACH***
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APPENDICES

None

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	July 2016
Pensions Committee	September 2015
Pensions Committee	September 2014

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WIRRAL COUNCIL

PENSION COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**ANNUAL EMPLOYERS' CONFERENCE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**MANAGING DIRECTOR, DELIVERY**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of the arrangements for the annual Employers' Conference to be held on Thursday 30 November 2017.

2.0 BACKGROUND AND KEY ISSUES

2.1 The 2017 conference will be held at Aintree Racecourse on **Thursday 30 November**.

2.2 In addition to the annual reports on investment performance and the administration of the Pension Fund over the previous year, a presentation will be given on the updated Pensions Administration Strategy to be implemented from 1 April 2018.

2.3 The draft programme commences with Coffee and Registration from 9.15am, with a start time of 10am. There will be an open forum for questions and an anticipated finish time of 1pm. Lunch will be provided for delegates.

2.4 Members are invited to attend the Conference and further details will be circulated to all Members of this Committee as soon as arrangements are finalised.

3.0 RELEVANT RISKS

3.1 There are none rising directly from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 The location, public transport links and overall quality of the venue has been consistently commended by delegates as an excellent or very good venue.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 None associated with the subject matter.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The cost of holding the Conference is estimated at £7,800; provision for which is contained within the budget.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

Yes - Access for delegates with limited mobility has been assessed; appropriate emergency arrangements in place. A hearing loop and relay screens will be provided for people with sensory impairments.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION

13.1 That members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The event provides a forum for officers, advisors and the Local Pension Board to report to employers and key stakeholders on the progress of the Fund.

14.2 The value of holding an annual conference was recognised following the successful re-introduction of this event in November 1997.

14.3 Feedback from attendees has consistently demonstrated the value that employers place in the opportunity to hear presentations on topical issues and receive reports on current Fund activity and performance.

REPORT Guy Hayton

AUTHOR Operations Manager
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BRIEFING NOTES HISTORY

Briefing Note	Date

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WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**LOCAL PENSION BOARD MINUTES**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides members with the minutes of the local Pension Board held 27 June 2017.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Local Pension Board was established in 2015 in accordance with section 5 of the Public Service Pensions Act 2013 to assist the Administering Authority in its role as a scheme manager of the Scheme.

2.2 The Local Pension Board provides reports to the Administering Authority on its activities and, as a part of that reporting, the minutes of its meetings are shared with Pensions Committee.

3.0 RELEVANT RISKS

3.1 There are none arising from this report

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are no implications arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That members note the minutes of the Local Pension Board

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The Local Pension Board provides reports to the Administering Authority on its activities and, as a part of that reporting, it is best practice that its minutes are shared with Pensions Committee on a regular basis.

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APPENDICES

Appendix 1 Pension Board minutes

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of Local Pension Board meetings are brought to the subsequent Pensions Committee meeting.	

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LOCAL PENSIONS BOARD

Tuesday, 27 June 2017

Present:	Councillor	J Raisin (Chair)	
	Councillors	M Hornby	P Maloney
		K Beirne	R Irvine
		D Ridland	
Apologies		G Broadhead	P Wiggins

1 **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

Members were asked to declare any disclosable pecuniary and non-pecuniary interests in connection with any item(s) on the agenda and state the nature of the interest.

No such declarations were made.

2 **MINUTES**

Resolved – That the accuracy of the Minutes of the Local Pension Board held on 16 March, 2017 be approved as a correct record.

3 **LGPS UPDATE**

Members were provided with the LGPS updates that had been taken to Pensions Committee since the previous Board meeting and were attached as appendices to the report.

Yvonne Caddock, Principal Pension Officer, informed the Board of the Fund's response to the separate consultations on Pension Scams and the Indexation/Equalisation of Guaranteed Minimum Pensions (GMPs) in Public Service pension schemes. The Fund responses to the government consultations discussed at the last Pension Committee were attached as appendices to the report. The Principal Pension Officer also noted that the Chair of the Pensions Board had been consulted and his comments included in the responses. The report further provided an update on the draft LGPS (Amendment) Regulations and the Enterprise Act 2016 Commencement Order. The statutory order SI2017/70 had been issued by HM Treasury with an effective date of 1 February 2017 and was available from the following link

http://www.legislation.gov.uk/uksi/2017/11/contents/made

Resolved – That the report be noted.

4 **REVIEW OF ACTUARIAL VALUATION**

A report of the Director of Pensions provided members with a summary of the Actuarial Valuation process which had culminated in the Funding Strategy Statement that had been approved at Pensions Committee on 21 March 2017.

Peter Wallach, Director of Pensions, informed Members that the purpose of the actuarial valuation was for the Administering Authority to determine:

- The expected cost of providing the benefits built up by members at the valuation date ('the liabilities') and to compare this against the funds held by the Fund ('the assets').
- The contributions needed to cover the cost of the benefits that active members would build up in the future and other costs incurred in running the Fund (the 'Primary Contribution Rate').
- An appropriate plan for making up the shortfall if the Fund had less assets than liabilities. This plan would cover the amounts which would need to be paid (the Secondary Contribution Rate') and the timeframe over which they would be paid ('the Recovery Period').

Fundamental to the valuation results was the funding strategy adopted by the fund. This was set out in the Funding Strategy Statement (FSS). The FSS provided an overview of the approach to be used for the actuarial valuation including economic and demographic assumptions and how any shortfall was expected to be financed. There was an important inter-relationship between the FSS and the Investment Strategy Statement. The ISS was a separate report on the agenda.

The Fund's investment strategy was kept under regular review by officers and elected members. The strategic investment consultant attended the Fund's Investment Monitoring Working Party meetings along with the independent advisors where investment strategy is considered. However, a fundamental review was undertaken at the time of the triennial valuation to ensure that the strategy remained appropriate for the Fund.

It was noted that the most significant consideration at this valuation was the move to a CPI linked valuation basis. The persistence of low interest rates, buoyancy of asset markets and increasing maturity of the Fund were also important.

Based on the actuary's assumptions, the investment consultant had undertaken a review of the investment strategy, modelling cash flows, investment returns/correlations and asset allocation to provide a stochastic projection of the Funded Status on the 'Ongoing Basis'. Following detailed

discussions with officers on these and other investment matters, which explored various permutations; a revised asset allocation had been formulated with officers and approved by elected members.

It was reported that the revised asset allocation had become effective from April 2017.

Resolved – That the report be noted.

5 **DRAFT PENSIONS ADMINISTRATION STRATEGY**

A report of the Director of Pensions informed Board Members of the revised Pension Administration Strategy (PAS) and the intent to consult with employers as required by the Regulations upon Pension Committee approval of the proposed changes to the policy and operational practice.

It was reported that the Fund had undertaken a review of the PAS which had last been updated in 2013 to accommodate procedural changes resulting from the introduction of both the LGPS Miscellaneous Regulations 2012 and Automatic Enrolment legislation.

It was reported that the introduction of the new CARE benefit design in April 2014 and associated final salary benefit protections had compounded the increasing complexity of administering the LGPS. Consequently, the importance of data quality and the necessity for equitable allocation of Fund resources across employers was greater than ever and had informed the review of the PAS.

The primary purpose of the review was to continue progress towards a seamless pension service, employing appropriate technology and best practice to both significantly improve the quality of information and the speed with which it was processed providing a more efficient service to Fund members.

The PAS covered primary matters as outlined in the Regulations such as administration standards, performance measures and communication with employers. It also set out the key undertakings and responsibilities of both the Fund and participating employers.

Members were informed that the PAS recognised that significant work would need to be undertaken in achieving the Pension Regulator's compliance requirements and both the Fund and its Employers would need to work in partnership to meet this challenge.

The Fund, like all public sector organisations, was under pressure to manage its costs and evaluate current operational functions. Therefore, resources

must be utilised to ensure compliance with statutory duties and responsibilities as defined within the LGPS regulations and overriding Pension legislation.

The LGPS regulatory framework allowed an Administering Authority to recover costs from an employing authority where costs had been incurred because of unsatisfactory performance and also to remove cross-subsidy of costs resulting from any inequitable allocation of resources.

The PAS had been revised to clearly document an extended charging policy in circumstances of persistent failure by an employer to meet administration requirements and for the provision of additional pension entitlement calculations or bespoke administration tasks.

The report further set out the timetable for implementation and it was noted that the revised PAS would be applicable from April 2018 and a draft version was attached as an appendix to the report for consideration.

Following overview of the Board and formal approval by Pension Committee, the Fund would shortly issue this document to employers for comment and feedback as part of the statutory consultation process

The consultation period was scheduled to commence from the end of July until the end of September. Work would then be undertaken to review the feedback and revise the strategy as required. The final version of the strategy would then be published in November 2017 for Pension Committee approval, in preparation for its implementation in April 2018.

Resolved – That the PAS and the proposed schedule be noted and progressed as outlined in the report.

6 **INVESTMENT STRATEGY STATEMENT**

Members gave consideration to a report that provided members with a copy of the Investment Strategy Statement which had been taken to March Pensions Committee. The draft Investment Strategy Statement (ISS) was attached as an appendix to the report.

Resolved – That the report be noted.

7 **TRANSPARENCY CODE**

Members gave consideration to a report of the Director of Pensions that provides details of the Code of Transparency that had recently been announced by the Scheme Advisory Board.

It was reported that it had long been recognised that, in addition to the fees paid for investment management, there were further hidden costs incurred that were difficult to ascertain and so rarely reported in most pension fund accounts. There had been a number of initiatives to provide greater transparency in relation to those hidden costs. Merseyside Pension Fund had been a longstanding supporter of transparency in many areas of corporate governance and investment, and had been a proponent for greater consistency in the disclosure and reporting of all costs.

In November 2015, DCLG had set out its criteria and guidance for Investment Reform in the LGPS requiring administering authorities to bring forward ambitious proposals for pooling. One of the four primary criteria was cost savings and pools would be required to report investment performance and cost savings. It was important that this is undertaken in a consistent way.

On 18 May 2017, the Scheme Advisory Board had announced its proposals for encouraging greater fee transparency by investment managers. The Board viewed the move toward investment cost transparency and consistency as an important factor in the LGPS being perceived as a value-led and innovative pension scheme. Transparency was also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and was included in the government's investment reform guidance and criteria for LGPS pooling.

The Code was a voluntary code and covered the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities.

To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board had worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code.

It was noted that the Code was voluntary but it was anticipated that it would be adopted widely and pension funds were engaging with asset managers to encourage their participation. The current Templates only apply in relation to listed asset classes. Templates for unlisted asset classes such as private equity would be developed in due course. Peter Wallach, Director of Pensions, informed the Board that as this was likely to be a protracted period, the Fund was committing considerable resource to ensure costs relating to unlisted assets were collated.

Resolved – That the report be noted.

8 **POOLING UPDATE**

A report of the Director of Pensions provided the Board with details of update reports that had been taken to Pensions Committee on 21 March 2017 in respect of pooling arrangements relating to the Northern Pool.
The report noted that Pooling would result in fundamental changes to oversight and management of LGPS assets. It was essential that appropriate governance arrangements were put in place to ensure that Pensions Committee could exercise its responsibilities in accordance with the Council's constitution.

Resolved – That the report be noted.

9 **DRAFT ANNUAL BOARD REPORT**

Members gave consideration to a report of Mr John Raisin, Independent Chair of the Local Pension Board that had been prepared in accordance with the Terms of Reference of the Pension Board and reviewed the performance of the Board and its members during its second year. The second year of the Board has been taken as from 1 May 2016 to 31 March 2017. The report also included a proposed Work Plan for 2017-18.

Under Section 11.3 of its Terms of Reference the Board was required to produce, on an annual basis, a report for consideration by the Scheme Manager which was the Wirral MBC Pensions Committee. This review has been prepared by the Independent Chair of the Board for consideration by the Board at its meeting on 27 June 2017. Following consideration by the Board an approved version of this review would be presented by the Independent Chair to the Pensions Committee at its meeting to be held on 17 July, 2017.

As the Board Members had been appointed on 15 May 2015 the review of the first year of the Board (2015/16) had covered the period 15 May 2015 to 30 April 2016. This review therefore of the second year of the Board (2016-17) covered the period 1 May 2016 to 31 March 2017.

Mr Raisin outlined the key points of the report and highlighted the 88% attendance at Board meetings which demonstrated the commitment of members. He also referred to a detailed report covering a broad range of Pensions Administration matters and containing extensive statistical reporting that the Principal Pensions Officer had prepared and presented in March 2017 which he considered essential and commented that it was very positive that this was happening.
The independent Chair also acknowledged the positive contribution that had been made by Mr Phil Goodwin, Employee Representative, who had died suddenly and unexpectedly in October 2016. Mr Raisin referred to the training that had been undertaken by members of the Board and noted the Work Plan which would be updated as necessary. He acknowledged the attendance of Mr Joe Blott, Managing Director for Delivery which he commented was very positive. He concluded his summary of the report by placing on record his

appreciation and thanks to the officers for the support and guidance he had received.

Resolved – That;

1. the Pension Board Review 2016-17 be received and approved.

2. the proposed Work Plan 2017-18 be approved.

10 **TPR ASSESSMENT**

A report of the Principal Pensions Officer updated the Pension Board on Merseyside Pension Fund's assessment of compliance against the Pension Regulator (tPR) Code of Practice No.14 in relation to the key areas of governance and administration, identified by the regulator as crucial in demonstrating effective stewardship of the Scheme.

The assessment was intended to provide assurance to board members in their capacity as the statutory body responsible for assisting the Scheme manager, in ensuring the effective and efficient governance and administration of Merseyside Pension Fund.

The appendices to the report contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Yvonne Caddock, Principal Pensions Officer outlined the report to members and highlighted that to stress test compliance against the code, Officers had established a traffic light based model to undertake a self-assessment in adherence to the code – this had been presented to the Pension Board for comment at its meeting in June 2016. Officers had adopted a condensed monitoring programme formulated by tPR and had undertaken a further review of compliance against code of practice 14.

It was reported that the Fund had also completed the online assessment provided by the tPR and a copy of the results showing full accreditation in all areas was attached at Exempt Appendix Two of the report

Officers would keep the Pension Board apprised of progress achieved against the identified areas of improvement in relation to record keeping and communicating with members.

Resolved – That the report be noted.

11 **COMPLIANCE MANUAL**

Members of the Board gave consideration to a report of the Director of Pensions that provided a copy of the Fund's Compliance Manual that had been taken to March Pensions Committee.

The appendix to this report contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

It was reported that the Compliance Manual set out the powers, duties and responsibilities of officers in respect of the financial services legislative and regulatory regimes relevant to MPF. Although the Pension Fund was not regulated by the Financial Conduct Authority (FCA) the manual incorporated, where appropriate, best practice as set out by the FCA and the codes of other professional bodies.

Resolved – That the report be noted.

12 **WORKING PARTY MINUTES**

The Director of Pensions submitted the IMWP minutes and GRWP approved by Pension Committee since the last Pension Board meeting and were attached as exempt appendices to the report.

The appendix to the report, the minutes of the GRWP on 7 February 2017 and IMWP on 9 February 2017, contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Resolved – That the report be noted.

13 **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

Resolved – That in accordance with section 100 (A) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business, on the grounds that it involved the likely disclosure of exempt information as defined by relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

14 **TPR ASSESSMENT EXEMPT REPORT**

The appendices to the report on the TPR Assessment was exempt by virtue of paragraph 3.

15 **COMPLIANCE MANUAL EXEMPT REPORT**

The appendix to the report on the Compliance Manual was exempt by virtue of paragraph 3.

16 **ADMINISTRATION KPI EXEMPT REPORT**

The report on the Administration KPI Exempt Report was exempt by virtue of paragraph 3.

17 **WORKING PARTY EXEMPT MINUTES**

The appendix to the report on the Working Party Minutes was exempt by virtue of paragraph 3.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**SYSTEMATIC INVESTING**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides Members with an update on the progress made to date in the potential development of internally managed factor-based investment strategies.

1.2 The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 The Fund has been exploring options to increase the proportion of its assets managed internally, consistent with its long-term investment philosophy and with due regard to risk. The accompanying report provides some background information and initial outcomes from the back testing of factor-based portfolios. Additional information will be provided at the next Investment Monitoring Working Party.

3.0 RELEVANT RISKS

3.1 The Fund diversifies its equity mandates with regard to mandate size and style. The first explicitly factor driven portfolio was implemented through an external investment mandate in 2009. It is important that any changes to mandate style and structure have due regard to both investment and operational risks.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 N/A.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are none arising directly from this report. The anticipated substantial cost savings of bringing assets in house will be confirmed if arrangements are finalised and implemented.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 Members are kept informed of potential developments in the fund's investment strategy.

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APPENDICES

Exempt report on systematic investing.

BACKGROUND PAPERS/REFERENCE MATERIAL

EDHEC Risk Institute: Diversified or Concentrated Factor Tilts

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2017

SUBJECT:	**GOVERNANCE & RISK WORKING PARTY MINUTES**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**MANAGING DIRECTOR DELIVERY**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report provides members with the minutes of the Governance & Risk Working Party (GRWP) held 6 July 2017.

1.2 An exempt report on the agenda, the minutes of the GRWP, contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 The GRWP meets twice yearly to enable Members and their advisors to consider governance and risk related matters, relating to Merseyside Pension Fund, in greater detail.

3.0 RELEVANT RISKS

3.1 There are none arising from this report

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 N/A

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are no implications arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That members approve the minutes of the GRWP

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The approval of the GRWP minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Fund's Governance Statement on 27 June 2011.

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APPENDICES

Exempt Appendix 1 – Minutes

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
GRWP minutes are brought to the subsequent Pensions Committee meeting.	

Minutes of the Meeting of the Governance and Risk Working Party

Thursday 6 July 2017

Present:

Councillor Paul Doughty (Chair)	Peter Wallach (Director of MPF)
Councillor Brian Kenny (WBC)	Joe Blott (Managing Director Delivery)
Councillor Terry Byron (KMBC)	Yvonne Caddock (Principal Pensions Officer)
Councillor Tony Jones (WBC)	Guy Hayton (Operations Manager)
	Donna Smith (Group Accountant)

Apologies were received from:

Councillor Cherry Povall (WBC)	Councillor George Davies (WBC)
Councillor Pat Cleary (WBC)	Councillor Geoffrey Watt (WBC)
Councillor Paulette Lappin (Sefton)	Patrick Cleary (Unison)

In attendance: Emma Jones.

1. Approval of Minutes

Minutes of G&RWP, dated Tuesday 7 February 2017 were approved.

2. Declarations of Interest

Councillor Terry Byron declared a pecuniary interest by virtue of being a member of the Fund.

Councillor Paul Doughty declared an interest by virtue of a relation being a member of the Fund.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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