**CONSULTATION ON RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE**

**RESPONSE FROM THE PENSION PROTECTION FUND**

**JULY 2021**

**About the PPF**

The Pension Protection Fund (PPF) was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.

The PPF is a statutory fund run by the Board of the PPF, a statutory corporation established under the provisions of the Pensions Act 2004. The PPF became operational on 6 April 2005.

On 10 July 2009 the Board of the PPF was also given the responsibility of being the scheme manager for the Financial Assistance Scheme (FAS). FAS provides assistance to members of eligible underfunded defined benefit schemes that started to wind-up between 1 January 1997 and 5 April 2005, or between 6 April 2005 and 27 March 2014 where an employer insolvency event occurred before 6 April 2005.

**General comments**

We are supportive of the proposals set out in the consultation document. Improving standards of audit and corporate governance are important in identifying and managing the risks posed to pension scheme members. Improvements will also support our work as a responsible investor.

Of particular interest to us are the proposals in relation to the regulation of the actuarial profession – we have provided responses to the specific questions on these proposals. On the wider aspects of the consultation we would like to make the following more general observations:

* ***Distributions and pension scheme deficits –*** any deficit in an employer’s defined benefit pension scheme should be an important factor in determining the extent to which dividend payments can be made. The Pensions Regulator’s guidance is clear that the plan to repair deficits should ensure fair treatment of the scheme alongside other creditors / shareholders and that ‘covenant leakage’ (i.e. a reduction in the ability of the employer to support the scheme) including through dividend payments should be minimised. In certain circumstances e.g. if employers are seeking to extend timescales for repaying deficits then dividends and other forms of shareholder distributions should stop. Given this interaction we think it will be important to consider how scheme deficits should be factored into the calculation of distributable reserves (for the purpose of publishing estimates) and in the statement on the legality of dividends.
* ***Application to public sector bodies*** – as proposals are developed we would welcome clarification as to how they would be applied to public sector and quasi-public sector bodies (like the PPF). This is both in terms of *whether* the proposals would be applied to such entities (and what criteria would be used to determine which entities are ‘in’ and which are ‘out’) and *how* they would be applied (not all requirements translate well to the public sector e.g. shareholder obligations).
* ***Internal audit –*** we would support points made by the Chartered Institute of Internal Auditors – further thought could usefully be given to the role Internal Audit functions could play in delivering the objectives of the consultation including to avoid duplication of roles and responsibilities between internal and external audit teams.

**Responses to questions in section 11.2: Oversight and regulation of the actuarial profession**

***80. Is ARGA the most appropriate body to undertake oversight and regulation of the actuarial profession?***

As ARGA is replacing the FRC, we consider it appropriate that ARGA undertakes the oversight and regulation of the actuarial profession that was previously carried out by the FRC.

***81. Should the regime for overseeing and regulating the actuarial profession be placed on a strengthened and statutory basis?***

We do not consider that there is a compelling case for the regulation of the actuarial profession to be strengthened. However, we do not object to the introduction of a statutory basis if it brings the regulation of the actuarial profession in line with the regulation of other professionals (e.g. lawyers and accountants).

***82. Do respondents support the proposed principles for the regulation of the actuarial profession? Respondents are invited to suggest additional principles.***

We support the proposed principles for the regulation of the actuarial profession and consider them to be comprehensive. However, we would suggest that the practical implementation of the proposals should be given equal weight.

While we are not suggesting any other principles to be formally added, we would recommend that the Institute and Faculty of Actuaries’ (IFoA) previous experience should be recognised and where appropriate ARGA collaborates with this body.

***83. Are the proposed statutory roles and responsibilities for the regulator appropriate? Are any additional roles or responsibilities appropriate for the regulator?***

We consider the statutory roles and responsibilities for the regulator to be appropriate. As outlined above we do not see a compelling argument for the technical standards to be legally binding.

This is primarily because there is already a strong incentive to comply (where appropriate), as falling short of professional standards can lead to disciplinary action, which in turn can lead to being removed from the profession altogether.

***84. Should the regulator continue to be responsible for setting technical standards? Should these standards be legally binding? Should the regulator be responsible for setting technical standards only?***

We believe that the regulator should continue to be responsible for setting technical standards. Please see comments under question 83 in regards to whether they should be legally binding. We consider it appropriate for the regulator to have the necessary powers to do more than setting technical standards.

***85. Should the regulator be responsible for monitoring compliance with technical standards? Should it also consider compliance with ethical standards if necessary?***

We consider it appropriate for the regulator to monitor compliance with technical standards. This assumes that the regulator will have the appropriate expertise available in order to make proper judgements in regards to compliance under differing circumstances.

We consider that the regulator should be involved in monitoring compliance with ethical standards where this is in the public interest.

***86. Should the regulator have the power to request that individuals provide their work in response to a formal request - and to compel them to do so if necessary?***

We believe the regulator should have the power to compel individuals to provide their work where this is clearly necessary in order to fulfil its remit.

***87. Should the regulator have the power to*** ***take appropriate action if work falls below the requirements of the technical standards? What powers should be available to the regulator in these instances?***

We believe the regulator should have the power to take appropriate action if work falls below the requirements of the technical standards. These powers should include the power to demand that the work is reperformed, the power to more closely monitor the relevant organisation for a period of time after the act of non-compliance, and the power to set fines where the relevant organisation does not improve the quality of work to the appropriate standards during this period of enhanced observation.

***88. Do respondents agree with the proposed scope for independent oversight of the IFoA? In which ways, if any, should the scope be amended?***

We agree with the proposed scope for independent oversight of the IFoA.

***89. Should the regulator’s oversight of the IFoA be placed on a statutory basis? What, if any, powers does the regulator require to effectively fulfil this role?***

We do not believe that there is a compelling case for the regulator’s oversight of the IFoA to be placed on a statutory basis. However, we do not object to the introduction of a statutory basis if it brings the regulation of the actuarial profession in line with the regulation of other professionals (e.g. lawyers, accountants).

***90. Does the current investigation and discipline regime remain appropriate? Should it be placed on a statutory basis? What, if any, additional powers does the regulator require to fulfil this role?***

We believe the current investigation and discipline regime remains appropriate. If other aspects of the regulator’s role are being placed on a statutory basis, it is appropriate that this aspect is also on the same basis. Similar powers to those included in our responses to questions 86 & 87 would be required.

***91. Do respondents think that the regulator’s remit should be extended to actuarial work undertaken by entities? What would be the appropriate features of such a regime, including the appropriate enforcement powers for the regulator?***

We believe that the regulator’s remit should be extended to actuarial work undertaken by entities and that it should broadly mirror the regulation of individuals.

***92. Should the regulator’s independent investigation and discipline regime for matters that affect the public interest also apply to entities that undertake actuarial work? Should the features of the regime differ for Public Interest Entities?***

We believe the regulator’s independent investigation and discipline regime for matters that affect the public interest should also apply to entities that undertake actuarial work. We do not believe it is necessary for Public Interest Entities to be treated differently. However, we would imagine that there may be more direct channels to Public Interest Entities than to private entities.

***93. Does the regulator require any further powers in relation to its regulation and oversight of the actuarial profession?***

We believe that the proposed powers should be sufficient for the regulator to carry out its

duties. Please also see our responses to earlier questions.