

# Pensions Committee

## 21 March 2018

<b>Report title</b>	Risk and compliance monitoring 1 October – 31 December 2017	
<b>Originating service</b>	Pension Services	
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### Recommendations for noting:

The Committee is asked to note:

1. The top ten risks for West Midlands Pension Fund
2. The compliance monitoring for the quarter and the resolutions put in place to address non-compliance.
3. MiFID II classification update.
4. The process for nominations of Trade Union Representatives to Pension Committee for the 2018/19 democratic year.

## **1.0 Purpose**

- 1.1 To provide the Pensions Committee with the quarterly update of compliance monitoring for the Fund for the period 1 October 2017 – 31 December 2017.
- 1.2 To confirm to Committee the process for seeking Trade Union nominations for the 2018/19 democratic year.

## **2.0 Risk register**

- 2.1 This quarter, the Fund has undertaken a comprehensive review of its risk register taking a stripped-back approach and assessing risks on a ground level at the Fund. The review included all service areas of the fund with each service highlighting its key risks which have been assessed at a holistic level by Senior Managers.
- 2.2 The risk register is intended to be an active and live document, responsive to change and is reviewed and reported by each Service Area on a monthly basis with quarterly reviews conducted by Senior Management and Committee.
- 2.3 An overview of the Risk Register is attached at Appendix One. This notes the current risks applicable across the Fund and the controls in place to manage them.
- 2.4 This quarter one of the key risks noted is in relation to the transition of the Fund's internally managed liquid assets into the new sub-funds created by LGPS Central. As the Fund prepares for the transfer of employees and management of invested assets to LGPS Central in April. An update on the development of the Central Pool is covered in a separate report.

## **3.0 Compliance monitoring programme**

- 3.1 The Fund has in place a programme, which aims to ensure its internal and external operations meet acceptable standards and best practice.
- 3.2 The programme is directly linked to the risk register; testing the effectiveness of the controls in place.
- 3.3 The results of the tests carried out for the October to December 2017 quarter are summarised below on an exception reporting basis. For compliance monitoring purposes the period reviewed is commenced at the end of each quarter, therefore the latest information available is for the July to September 2017 quarter which was tested during October.

### **3.4 Exception reporting**

Out of all of the tests carried out, the following was found:

#### **3.4.1 Governance**

This quarter the Fund reported to the Pensions Regulator (TPR) the level of production of

Annual Benefit Statements which covered 79% of active member records in 2017. Further information is provided in the Data Quality report.

The Fund has undertaken a program of transition to monthly submissions collating more frequently from employers member and financial data. As noted in the Employer Engagement Report, the receipt of monthly submissions from employers has been sporadic since the launch in April 2017, with many employers playing “catch up” towards the end of the year. While employers contributions have been received monthly as due the ability of the Fund to reconcile the payments has been hampered by not receiving a monthly file which provides the detail of those payments.

Consequently, the Fund has been unable to reconcile some payments and work is ongoing to follow-up and completed the reconciliation in advance of the year end.

The Fund’s Senior Compliance Officer – Asset Management and Regulation, has worked with the Finance Team to put in place adequate controls to monitor and manually reconcile payments received to ensure effective monitoring is in place. This work continues as we prepare for accounts close on 31 March with a more automated solution being developed.

The Fund has also reported 2 data breaches this quarter, one in relation to incorrect information being sent to a member, the second in connection with a system error which incorrectly linked 2 pension records due to a mismatch of information received from the employer. The records have been rectified and there was deemed to be no material risk to the members.

### **3.4.2 Finance and Investments**

This quarter the Fund is reporting 10 late trades on execution of settlements, 5 were connected to the Custodian’s actions and 5 were connected to the Broker. There was no detriment to the Fund due to these late trades and the Fund’s compliance officer continues to work with the Finance Team to monitor these actions.

## **4.0 MiFID II classification update**

- 4.1 Committee will recall from our last report that the Fund is required to “opt-up” our status under MIFID II to ensure we retain the classification of Professional Client. Work has been undertaken by the Compliance and Investment teams to write out to our Fund Managers ensuring the Fund is opted up to professional status.
- 4.2 The National Scheme Advisory Board is monitoring the progress of the opt-up process across the LGPS and has published on its website details of those funds who have achieved opted up status.
- 4.3 The Fund has confirmed opted up status for all Managers in connection with the West Midlands Integrated Transport Authority Pension Fund and this has been reported to the Scheme Advisory Board.

- 4.4 In relation to the Main Fund, there are some US Equity firms who are yet to confirm the opted-up status of the Fund, however there is also a query as to whether they need to opt the Fund up given it is an EU requirement and they are American firms. This discussion has been posed to the Scheme Advisory Board representative who has raised a query with other LGPS Funds. In light of the discussion ongoing, the Scheme Advisory Board has confirmed WMPF has having been opted up on their website.

## **5.0 Trade Union nominations to Pension Committee**

- 5.1 Committee will recall that each year the Fund invites its Trade Union representatives to sit as observers at its quarterly meetings, offering advice and support on the issues being presented.
- 5.2 The contribution from our Trade Union members is well received and offers a balanced view on behalf of our members.
- 5.3 As we approach the start of the 2018/19 democratic year, the Fund will begin to seek nomination of the Trade Union representatives for the forthcoming year and will write to our current representatives informing them of this process. A report will be presented to the June committee meeting (first meeting of the democratic year) to confirm the Trade Union nominations.

## **6.0 Financial implications**

- 6.1 Failure by the Fund to adhere to regulatory requirements could result in fines being imposed on the Fund by either the Pensions Regulator or the Information Commissioner.

## **7.0 Legal implications**

- 7.1 The need for effective risk management is reflected throughout guidance and regulation in the LGPS, notably in Regulation 7(2) of the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*.
- 7.2 The Pensions Committee, as the body charged with governance of the administering authority's pensions operations, takes the responsibility for ensuring that there is effective risk management over those operations.

## **8.0 Equalities implications**

- 8.1 There are no implications

## **9.0 Environmental implications**

- 9.1 This report contains no direct environmental implications.

## **10.0 Human resources implications**

10.1 The report contains no direct human resource implications.

## **11.0 Corporate Landlord**

11.1 There are no corporate landlord implications.

## **12.0 Schedule of background papers**

12.2 Pension Regulator's Code of Practice

<http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>

12.3 Financial Conduct Authority Markets in Financial Instruments Directive II Implementation – Policy Statement II

<https://www.fca.org.uk/publication/policy/ps17-14.pdf>

## **13.0 Schedule of Appendices**

13.1 Appendix 1 – Risk Register