



WILTSHIRE PENSION FUND

Planning report to the Audit Committee for the 2020 audit

05 February 2020

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Partner introduction

The key messages in this report:

I have pleasure in presenting our Planning Report to the Audit Committee for the 2020 audit of the Wiltshire Pension Fund ("the Fund"). I would like to draw your attention to the key messages of this paper:

Scope	Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Fund prepared under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.
Fund developments	<p>As part of our audit planning procedures we have held planning discussions with Rozalyn Vernon (Fund Investment and Accounting Manager), Jennifer Devine (Investment Manager) and Andy Cunningham (Pension Manager) to develop an understanding of the developments in the year ending 31 March 2020. We summarise these below:</p> <ul style="list-style-type: none">• There has been a transfer of investment assets from Baillie Gifford into the Brunel Pension Partnership pension pool and there are expected to be two further transitions from the Fund assets to the Brunel Pension Partnership pension pool before Fund year end; and• The Fund has now implemented payment authorization controls in their Altair system.
Significant audit risks and audit focus areas	<p>We have created our risk assessment so that our audit plan reflects those areas which we believe have a greater chance of leading to material misstatement of the financial statements.</p> <p>The identified significant audit risk detailed on page 9 is management override of controls.</p> <p>Although they have not been assessed as significant risks, our other focus areas during the audit will be:</p> <ol style="list-style-type: none">1. completeness and accuracy of the asset transfers to Brunel Pension Partnership Ltd2. valuation of alternative investments;3. completeness of investments and investment disclosures;4. accuracy of benefits paid (lump sum retirement benefits and transfers out); and5. accuracy of benefits paid (pensions). <p>The audit focus areas are detailed on pages 11 to 16. We will also consider the impact of the judgement of the Supreme Court on the McCloud/Sargeant case in the financial statements.</p>

Partner introduction

The key messages in this report (continued):

Going Concern	<p>We are required to comment on the going concern basis of preparation of the financial statements in our audit report. We will respond to this requirement by enquiring of the Audit Committee, and inspecting such items, where appropriate, but not limited to:</p> <ul style="list-style-type: none">• the Committee's own going concern assessment;• the latest publically available information regarding the financial position of the principal employer;• the results of the covenant assessment, if any;• the Wiltshire Council financial plan update;• the revenue and capital budget monitoring report;• the latest funding position of the Fund;• correspondence with the pensions regulator; and• minutes of the Audit Committee meetings.
Brexit	<p>The UK has signalled it's intention to leave the European Union on 31 January 2020. Businesses and indeed their pension schemes should continue to plan for disruption and change across its operations, for example through resourcing restrictions; contract management; withholding taxes and other investment transactions such as foreign exchange volatility. As part of the audit, we will consider:</p> <ul style="list-style-type: none">• What operational plans the Audit Committee may have made and how this impacts the financial statements and the Audit Committee's report;• Fair value of assets as at the Fund's year end; and• The impact on the strength of the employer covenant and any going concern implications.
Audit Quality	<p>Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:</p> <ul style="list-style-type: none">• A robust challenge of the key judgements taken in the preparation of the financial statements;• A strong understanding of your internal control environment and the internal control environment in place; and• A well planned and delivered audit that raises findings early with the Audit Committee. <p>Our team of dedicated pension Fund audit specialists aim to not just deliver a compliant audit but also one that is aimed at adding insight to the Audit Committee.</p>

Ian Howse
Audit Partner

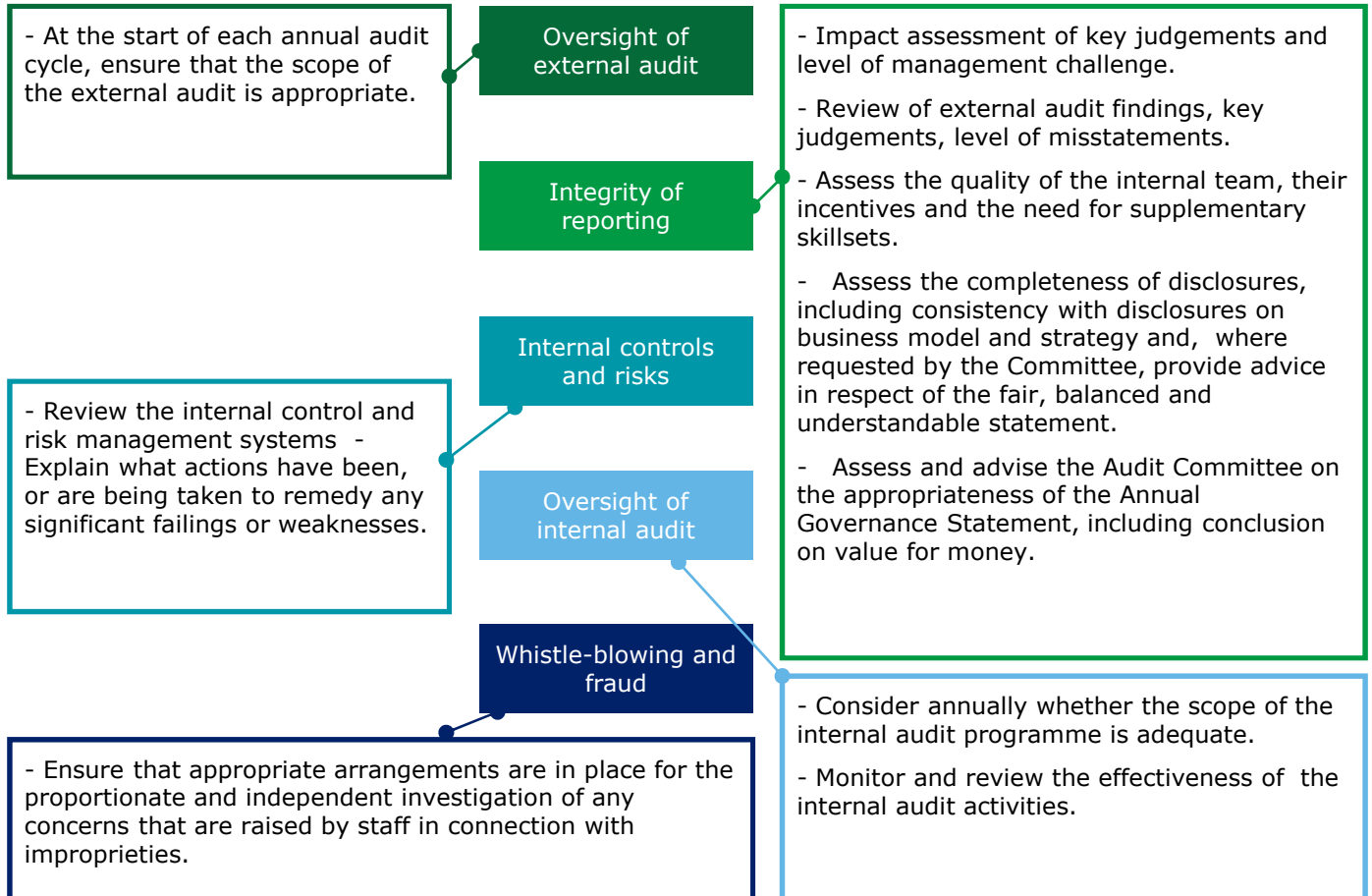
Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?



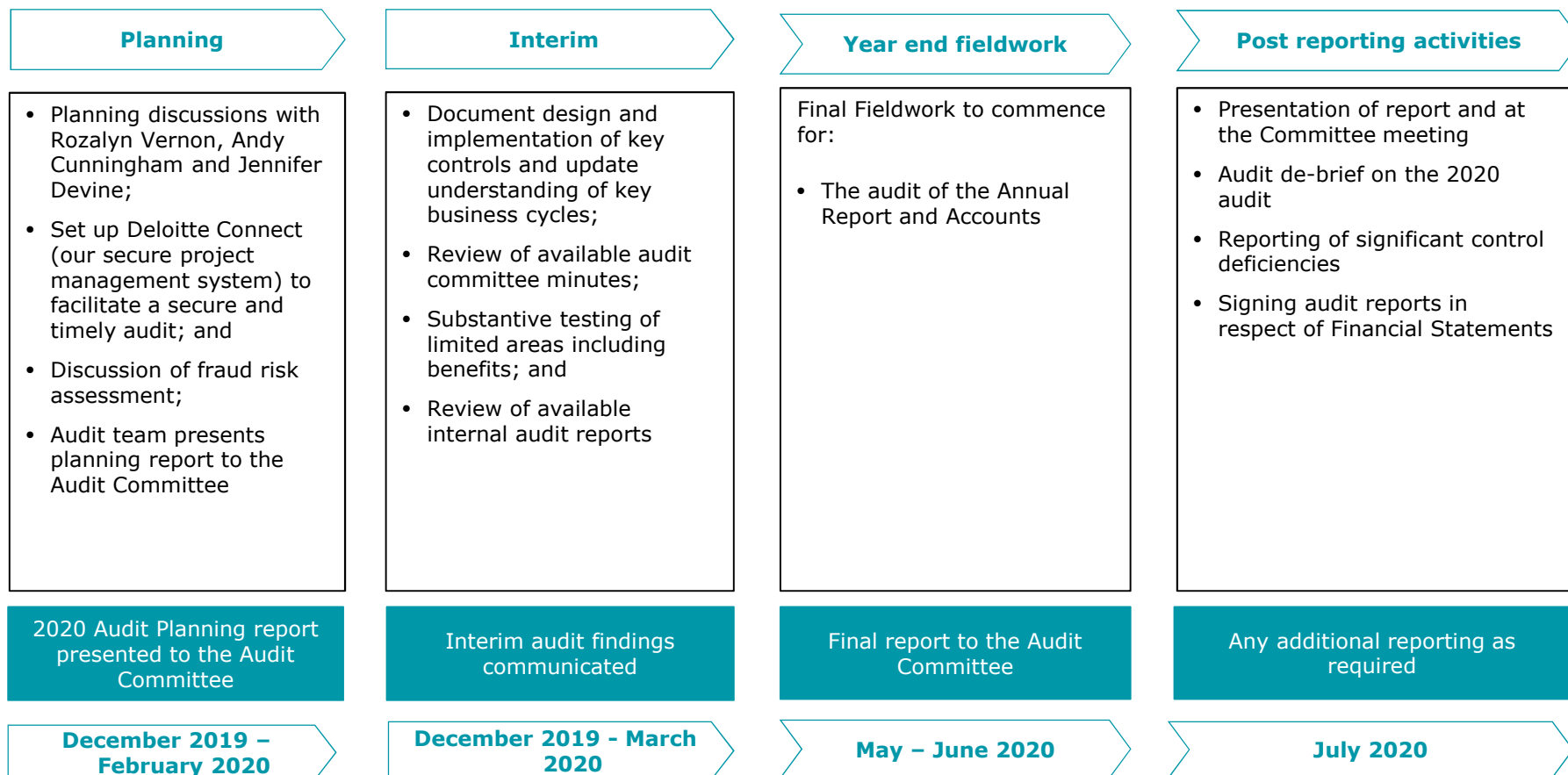
As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be shared with management as required. The following sets out the expected timing of our reporting to and communication with you.



Ongoing communication during the year end fieldwork phase to ensure realistic deadlines are set on Deloitte Connect and timely delivery of information at these dates.

Materiality

Our Approach to Materiality

Basis of our materiality benchmark

The audit partner has estimated financial statement materiality for the Fund based on professional judgement and the requirement of auditing standards. This materiality has been calculated based on net assets.

We will use lower of 1% of the Fund's net assets in the draft financial statements and the Council materiality as the benchmark for determining our financial statement materiality.

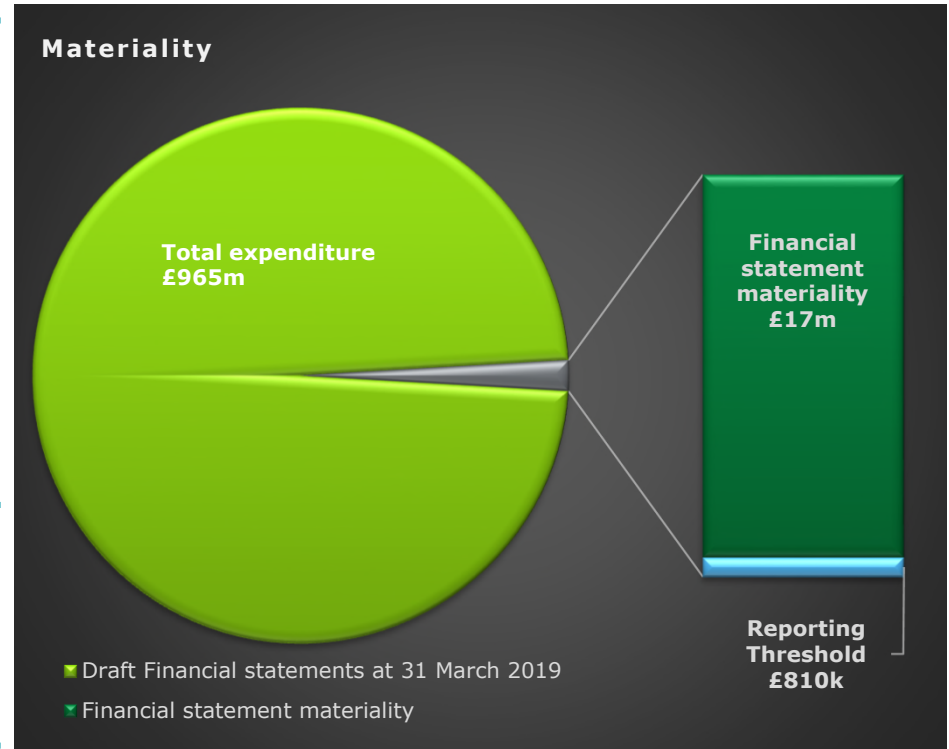
1% of fund net assets is £26m and the council materiality is £17.0m (based on 1.7% of total expenditure) Therefore materiality has been capped at that amount.

Reporting to those charged with governance

We will report to you all misstatements found in excess of 5% of financial statement materiality. We will report to you misstatements below this threshold if we consider them to be material by nature.

Materiality Calculation

The materiality and reporting to those charged with governance figures will be updated on receipt of the 2020 draft financial statements.















Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scoping - Fund account balances

Summary of audit significant risks and focus areas

Below we have considered each of the Fund's account balances. We will report factually on the key audit risks that have the biggest impact on the audit, explaining why the risk is relevant within the specific circumstances of the Fund and clearly document the specific procedures we will perform to address the key audit risk. These areas are considered in more detail on pages 10 to 16. The assessed risks on the account balances below are based on our knowledge of the Fund and prior year audited accounts. We will report control observations and other findings in our final report to the Audit Committee on work performed on other account balances.

Risk Area	Risk Type	Fraud Risk	Amount as per 2019 financial statements	Approach to testing
Management override of controls			Not applicable	Please see page 10
Completeness and accuracy of the asset transfer to Brunel Pension Partnership Limited			£840,000	Please see page 12
Valuation of alternative investments			£221,668,000	Please see page 13
Completeness of Investments and investment disclosures			Not applicable	Please see page 14
Accuracy of benefits paid (lump sums and transfers out)			£21,135,000	Please see page 15
Accuracy of benefits paid (pensions)			£72,224,000	Please see page 16

Significant risk: risks which require a tailored, elevated audit response in terms of the nature, timing and extent of audit testing. Significant risks are based on professional judgment and the results of the risk assessment procedures we have performed.

Audit focus areas: risks which require significant audit consideration however where the potential or likelihood for material misstatement lower than that of a significant risk.

Legend



Not a Fraud Risk



Fraud Risk



Significant risk



Audit focus areas

Significant audit risk

Significant audit risk

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance

The financial reporting process in place has an adequate level of segregation of duties, with no members of the audit committee being able to post Journal entries.

Deloitte response management override of controls risk identified

In order to address the significant risk our audit procedures will consist of the following:

- using Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- performing a walkthrough of the financial reporting process to identify the key controls over journal entries and other adjustments posted in the preparation of the financial statements;
- reviewing the accounting estimates for bias, such as year-end creditor and debtor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management;
- ensuring that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- testing the design and implementation of controls around the journals process and investment and disinvestment of cash during the year; and
- substantively testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Audit focus areas

Audit focus areas

Completeness and accuracy of the asset transfer to Brunel Pension Partnership Ltd

Risk identified

Due to the Government announcement that Local Government Pension Schemes must pool their assets together in order to reduce the cost of investing to the public purse, the Fund has agreed to become part of the Brunel Partnership pool. During the year the Fund will transfer two tranches of assets to the Brunel Partnership pension fund.

The transfer of these assets is an area of focus given the need to determine the completeness and accuracy of the transfer of these assets.

Response of those charged with governance

The Fund has an in house investment team with reasonable experience in managing and valuing investments. In addition the Fund employed Legal and General Investment Management (LGIM) to provide oversight and to report to them about the transition process.

Deloitte response to the risk identified

In order to address this area of audit focus, we will perform the following audit procedures:

- review the design and implementation of key controls operated by management to check the reconciliation of assets transferred to the new pool with Brunel and the allocation of investments;
- confirm the completeness and accuracy of the values of the assets transferred by comparing the closing balances of the assets as per the client management breakdown and the LGIM transition report to the balances held at Brunel Partnership; and
- perform a review of the transition report which provides an overview of the assets transferred to Brunel Pension Partnership Ltd, in order to identify whether there are any significant issues to be noted.

Audit focus areas

Valuation of alternative investments

Risk identified

The Pooled investment vehicles include a range of alternative investments, including property, infrastructure and emerging market debt and equity funds. At 31 March 2019 these totalled c.£221m. These funds do not have publically available prices and are often infrequently priced increasing the risk of stale pricing.

Response of those charged with governance

The Fund outsources the valuation of these investments to various investment Managers with appropriate experience in managing and valuing these types of investments.

Controls are in place with investment managers to ensure prices are up to date and accurate.

Deloitte response to the risk identified

In order to address this area of audit focus, we will perform the following audit procedures:

- review the design and implementation of key controls over the valuation of investments by obtaining the investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- review the design and implementation of key controls over the valuation of investments performed by the in house investment team;
- agree the year end valuations as reported in the financial statements to the reports received directly from the investment managers;
- perform independent valuation testing for a sample of year end holdings by rolling forward the valuation as per the latest audited financial statements using cashflows and an appropriate index as a benchmark; and
- ensuring appropriate stale price adjustments have been posted to the financial statements.

Audit focus areas

Completeness of investments and investment disclosures

Risk identified

The Fund holds a diversified portfolio of investment assets. As this is the largest balance in the financial statements, we consider there to be a risk of incomplete or inaccurate reporting of transactions or balances at the year end. The Fund has additional disclosure requirements as it is governed by Superannuation Act 1972, the LGPS Regulations 2013, the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 and the LGPS (Amendment) Regulations 2015.

Response of those charged with governance

The Pension Committee has engaged the services of various investment managers to provide year end valuations of Fund investments and maintain the accounting records for transactions undertaken in the year.

The Finance Team process the investment journals to recognise these transactions in the accounts.

Deloitte response to risk identified

In order to address this area of audit focus our audit procedures will consist of the following:

- review the design and implementation of key controls over the divestment and purchase of investments;
- vouching year end valuations in the financial statements to the reports received directly from the investment managers;
- testing a sample of purchases and sales of investments during the year to the investment manager records;
- reviewing the investment transition paper for investments into the Brunel pool and tracing through all cash movements ensuring that the value of sales equalled the value of purchases on the day of the transfer;
- testing the completeness and accuracy of the year-end unit and cash reconciliations prepared by the Fund accountant and custodian State Street;
- review the cash reconciliation prepared by Statestreet for accuracy;
- performing an analytical review to assess the reasonableness of the investment return quoted in the draft accounts;
- obtaining third party confirmations from each investment manager; and
- reviewing and assess the appropriateness of the classification of investment assets and liabilities within the fair value hierarchy.

Audit focus areas

Accuracy of Benefits paid (Lump sums and Transfer Values)

Risk identified

The risk principally relates to the inaccurate application of the LGPS regulations and rules to the calculation of retirement benefits and transfers out during the Fund year. The administration team use Altair to calculate retirement benefits. Incorrect benefits calculations and/or making payments to the wrong members, or people who are not eligible for benefits, can lead to misstatement of the financial statements, financial loss, pensioners being wrongly paid, reputational damage and breaches of the Pensions Acts.

Response of those charged with governance

Benefits are calculated and paid by the Scheme's in-house administration team.

Deloitte response to risk identified

In order to address the risk our audit procedures will consist of the following:

- testing the design and implementation of key controls operating within the Altair infrastructure and review the process that Fund management have put in place to ensure benefits and transfers out are paid in accordance with the LGPS Regulations & Rules;
- agreeing a sample of benefits paid to the calculations and payment including both lump sum and monthly pension;
- agreeing a sample of benefits paid through to a signed option form to ensure that it was in line with members wishes;
- reviewing the member file for a sample of benefits paid to ensure adequate sign off of all internal processes; and
- for a sample of transfers out, confirming that the receiving Scheme is an HMRC registered Scheme and the Independent Financial Advisor is Financial Conduct Authority registered.

Audit focus areas

Accuracy of Benefits Paid (Pensions)

Risk identified

The risk principally relates to the accuracy of a material amount of pensions paid by the Fund during the year.

Response of those charged with governance

Benefits are calculated and paid by the Scheme's in-house administration team.

Deloitte response to risk identified

In order to address the risk our audit procedures will consist of the following:

- reviewing the design and implementation of key controls over the calculation of pensions paid;
- for the sample of months selected, agreeing the amount as per pension payroll report back to the pension paid from the Fund bank account;
- for a sample of lump sum benefits paid, agreeing that these are added to the pension payroll timely and accurately; and
- performing an analytical review on pensions paid by the fund in the year to assess the reasonableness of the balance.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory updates, relevant to you.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committees.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and Fund risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

Our technical updates provide the Audit Committee with some insight in to relevant topical events in the pensions industry.

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

Ian Howse

for and on behalf of Deloitte LLP

Cardiff | 5 February 2020

Appendix 1: Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Audit Committee, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified management override of controls as the significant audit risk for the Fund.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Audit Committee:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 1: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to the Audit Committee regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



The Audit Committee

- How the Audit Committee exercises oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of the Audit Committee on the most significant fraud risk factors affecting the entity.



Cyber Breaches

- How the Audit Committee exercises oversight of the management's processes to prevent and identify any cyber breaches
- Whether the Audit Committee has knowledge of any cyber breaches that have resulted in more than inconsequential unauthorised access of data, applications, services, networks or devices.

Appendix 2: Independence and fees

A Fair and Transparent Fee

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and will reconfirm our independence and objectivity to the Audit Committee for the year ended 31 March 2020 in our final report to the Audit Committee.
Fees	Our proposed audit fee for the year ended 31 March 2020 is £18,700 (2019: £18,669) for the Fund. The above fees exclude VAT and out of pocket expenses. We do not provided any other non-audit services to the Fund.
Non audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 3: Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.
<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."



Topical matters



Topical matters

Climate change

Increasing urgency for Trustees to act now!

From 1 October 2019, new regulations came into force compelling pension schemes to pay greater attention to ESG risks and report on how they take these matters into account in their statement of investment principles.

Most DC schemes will be required to include a statement in relation to the default fund. The statement should set out how, and the extent to which, in the opinion of the trustees, the SIP has been met in the previous year. In effect, default funds will have to report back annually on the implementation of their stewardship policies.

For DB schemes, the implementation of IORP II's "own risk assessment" is likely to involve greater reporting in relation to the SIP on a triennial basis, although the details of this are not yet known. However, for the many schemes who have signed up to the FRC UK Stewardship Code, proposed revisions to that code in 2019 may require a much more proactive approach from trustees if they wish to remain signatories.

On 7 October, the FCA, Financial Reporting Council (FRC), PRA and the Pensions Regulator (tPR) issued a joint declaration on climate change announcing that they will be participating in the government's new taskforce, announced as part of the Government's Green Finance Strategy. These regulators made clear that climate change presents far-reaching financial and transition risks as we move to a carbon neutral economy and urgent action was required.

At the same time the Pensions minister, Guy Opperman, wrote to 50 of largest pension schemes requesting action to combat climate change and that they must:

- take account of financially material considerations arising from ESG considerations,
- have a policy on stewardship of assets, and
- have a policy on how members' views are taken into account.

Schemes were also told that circumstances where neither climate nor ESG risks are financially material were likely to be "extremely limited", meaning "it is part and parcel of trustees' fiduciary duty to take account of these risks when setting out investment strategy and to explain that clearly to investors".

Schemes who wish to adopt the Task Force on Climate-related Financial Disclosures (TCFD)'s but may be seeking guidance as to how these disclosures could be applied to pension schemes should look out for tPR's guidance in this area. It is expected that this will be published late 2019 as part of tPR's updated governance code of practice.

Visit www.deloitte.co.uk/climatechange for more information about the challenges faced and how to futureproof your scheme



Topical matters

Liquidity of investment funds

On **30 September 2019**, the **FCA** published a new policy statement (PS19/24) regarding illiquid assets in open ended funds. This statement aims to address how liquidity risks are managed under stressed market conditions, and its publication was delayed following the collapse of the Woodford Equity Income Fund in order to consider the impact of this event on the policy.

Key changes

- **New fund classification – ‘funds investing in inherently illiquid assets’ (FIIA)** – the new rules require that any non-UCITS retail scheme (NURS) that offers daily dealing and invests at least 50% of its assets in inherently illiquid assets must be classified as a FIIA from 30 September 2020.
 - Inherently illiquid assets include real estate, investments in infrastructure projects, and securities that are not traded on a market recognised in the FCA COLL regulations.
 - Funds with redemption periods that are aligned with the timescale typically needed to sell the underlying assets will not be classified as FIIA. For example a property fund with a redemption period of 6 months would likely not be a FIIA.
 - Illiquid assets include holdings in funds, such as units of other FIIAs and Qualified Investor Schemes (QIS). Therefore fund of fund arrangements and multi asset funds may be captured under the definition of a FIIA.
- **Suspension of dealing** – where there is a material uncertainty about the valuation of at least 20% of the assets of a FIIA, as determined by the standing independent valuer appointed for the fund, all dealing in the fund must be suspended. Dealing can continue in the fund provided that the fund manager and the depository agree that this is in the best interest of investors.
 - This new requirement will likely lead to more frequent, and faster, fund dealing suspensions which may impact on the liquidity profile of the overall investment portfolio.
 - Multi asset funds and fund of fund arrangements that invest in, for example, open ended property funds may have their dealing suspended if the property fund they are invested in have their dealing suspended under these rules. Fund managers may seek to avoid this scenario by restructuring their funds as closed ended funds (such as investment trusts) or by ensuring that their property exposure remains below 20%.

Deloitte response: Trustees should analyse their portfolio and liaise with their investment managers to determine if any of the funds invested in will be covered by this new policy. Where fund investments are affected, Trustees should consider the impact of the changes on the liquidity profile of the investment portfolio and whether the fund remains suitable for their needs in the current structure.





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