

# TERMS OF REFERENCE

## INDEPENDENT GOVERNANCE COMMITTEE

### 1. Authority

- 1.1 The Independent Governance Committee (**IGC**) derives its authority from the board of Hargreaves Lansdown Asset Management Limited (**Board**) (**Company**), which has appointed it to discharge the responsibilities set out in these terms of reference.
- 1.2 These Terms of Reference replace any pre-existing Terms of Reference of the IGC.

### 2. IGC's Duties

- 2.1 The IGC will act in accordance with these terms of reference and any other policies and procedures as notified by the Company from time to time, including but not limited to the Company's IGC Escalation Procedure
- 2.2 The IGC will promote the Company's general culture.
- 2.3 The IGC will comply at all times with the relevant rules and guidance in Chapter 19.5 of the FCA's Conduct of Business Sourcebook (**COBS**), as may be amended from time to time.
- 2.4 The IGC will discharge its duties under COBS and these terms of reference, in particular (but not limited to) by carrying out the duties and responsibilities set out in Appendix 2, which contains the key relevant duties and responsibilities found in Chapter 19.5 of COBS.
- 2.5 The IGC has no delegated authority to make decisions or implement changes on behalf of the Company. The IGC should escalate any concerns as appropriate and in line with the relevant provisions in COBS 19.5 and the Company's IGC Escalation Procedure where the Company has not, in the IGC's opinion, addressed the IGC's concerns satisfactorily or at all.
- 2.6 The IGC will complete an annual self-assessment of the IGC's operational effectiveness by assessing overall performance, both at a collective and individual level, against its duties and responsibilities and the Chair shall attend one Board meeting per year to report to the Company on the IGC's self-assessment.

### 3. Relationship with the Company

- 3.1 The Company has established the IGC to ensure that Relevant Policyholders and Pathway Investors benefit from independent review of the investments they invest in.
- 3.2 The IGC will act solely in the interests of:
  - (a) Relevant Policyholders;
  - (b) Pathway Investors; and
  - (c) any other members or clients the Company asks the IGC to consider.
- 3.3 The Company will arrange for a suitable person to be responsible for the management of the relationship between the Company and the IGC (the "**Company Representative**"). The nominated individual shall report to the Board regarding the IGC as and when required.

### 4. Conflict of Interest

- 4.1 The Company will review on a regular basis whether its independent IGC members continue to be independent and take appropriate action if it considers that they are not.

## 5. **Purpose**

5.1 The specific objectives of the IGC are to:

- (a) assess whether the Company provides value for money for Relevant Policyholders or Pathway Investors;
- (b) provide an independent consideration of the Company's policies on:
  - (i) ESG Financial Considerations;
  - (ii) Non-Financial Matters;
  - (iii) Stewardship; and
  - (iv) where applicable, Other Financial Considerations to the extent that they pose a particular and significant risk of financial harm to the Relevant Policyholders or Pathway Investors.

## 6. **IGC Responsibilities**

6.1 In relation to matters for which the IGC (and where applicable, the Chair of the IGC) is responsible, the IGC (and where applicable, the Chair of the IGC) must comply with the requirements set out in COBS 19.5, including but not limited to the key provisions in COBS 19.5 as appended at Appendix 2.

## 7. **Appointment of IGC Members**

7.1 The Company will be responsible for the recruitment, appointment and re-appointment of the IGC members.

7.2 The Company will take reasonable steps to ensure that the IGC has sufficient collective expertise and experience to be able to make judgements on the matters in the IGC's remit of review.

7.3 The Company will recruit independent IGC members through an open and transparent recruitment process.

7.4 The Company will appoint members to the IGC so that:

- (a) the IGC consists of at least five members, including an independent Chair and a majority of independent members;
- (b) IGC members will be bound by appropriate contracts which reflect the terms of reference in COBS 19.5.5R, and on such terms as the Company may determine in order to secure the independence of independent members;
- (c) independent IGC members who are individuals will be appointed for fixed terms of no longer than five years, with a cumulative maximum duration of ten years.
- (d) appointments to the IGC will be managed to maintain continuity in terms of expertise and experience of the IGC.

7.5 The Company will consult the Chair on the appointment of the IGC members.

**8. Appointment of the Chair**

8.1 The Company will be responsible for the recruitment and appointment of the Chair of the IGC.

**9. Termination of appointment**

9.1 The Company, in appointing independent IGC members, must determine whether such a member is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, that member's judgement.

9.2 Save in respect of the Chair, IGC members may resign on giving 90 (ninety) working days written notice to the Company. The Board may agree (having consulted with the Chair) to remove such IGC members on giving three months' written notice to the relevant IGC member.

9.3 The Chair may resign on giving 90 (ninety) working days months' written notice to the Board. The Board may decide to remove the Chair on giving six months' written notice to the Chair.

9.4 Notwithstanding paragraphs 9.2 and 9.3, the Board reserves the right to remove an IGC member (including the Chair) with immediate effect if the relevant IGC member (including the Chair) has failed to fulfil their duties and/or has committed a material breach of their duties as specified under these terms of reference (which may include a breach of the relevant FCA rules and guidance).

9.5 The Board shall replace any vacancies that arise within the IGC as soon as possible and in any event within six months.

**10. IGC meetings**

10.1 The IGC will meet at least quarterly, or more frequently (with approval of the Chair and the Company) as necessary in order to properly discharge the IGC's duties.

10.2 Notice of each IGC meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each IGC member and any other person required to attend, no later than five working days before the date of the meeting.

10.3 The IGC may invite any individual, whether internal or external, to attend all or part of any meeting in whatever capacity as the Chair of the IGC deems appropriate.

10.4 The secretary or their nominee shall minute the proceedings and decisions of all IGC meetings, including recording the names of those present and in attendance.

10.5 Draft minutes of IGC meetings shall be circulated promptly to the Chair, or their nominee, and, with the agreement of the Chair, those who attended the meeting. Once approved, minutes should be circulated, or otherwise be made available to the IGC and the Board.

10.6 Final copies of the minutes of the meetings of the IGC will be approved at the next following meeting and maintained for the Company's records.

**11. Quorum**

11.1 The IGC will meet, or otherwise make decisions to discharge its duties using a quorum of at least three members, with the majority of the quorum being independent.

11.2 IGC meetings will normally be chaired by the Chair. If the Chair is absent, the meeting will be chaired by another independent IGC member.

11.3 IGC members may not delegate.

12. **Voting rights**

- 12.1 Only members of the IGC shall have the right to attend and vote at IGC meetings.
- 12.2 Where decisions are required, these shall be made with agreement of a majority of those voting members present at the meeting.
- 12.3 Each attending IGC member shall have one vote.
- 12.4 In the case of an equality of votes, the Chair of the meeting shall have a second casting vote.

13. **Secretary**

- 13.1 The Company Secretary or their nominee shall act as the secretary of the IGC.

14. **Resources**

- 14.1 The Company will provide the IGC with the necessary support and resources as considered reasonable to discharge its duties and responsibilities.
- 14.2 Subject to approval by the Company, the IGC may obtain legal or independent professional advice from such providers if this is necessary and proportionate for the IGC to properly discharge its duties and responsibilities.

15. **Amendments to the Terms of Reference**

- 15.1 The IGC will review these terms of reference at least annually to ensure they remain up to date. Any amendment to these terms of reference must be agreed by the Company.
- 15.2 For the avoidance of doubt, the Board has discretion to revoke these terms of reference so that they no longer apply. Such revocation may only take effect on the expiry of 30 days after the Board has given written notice of the revocation to the Chair of the IGC.
- 15.3 All references in these terms of reference to FCA rules and guidance shall be to those rules and guidance as amended, modified, withdrawn or replaced from time to time. If any such amendment, modification, withdrawal or replacement results in a need to amend these terms of reference then the Board will work closely with the IGC to make such amendments.

<b>Date the ToR were last amended</b>	Amended 2025 by Osborne Clarke and Approved by HLAM Board 20 October 2025
<b>Reason for last amendment</b>	At the request of HL's former Company Secretary following changes to the Committee membership.

## Appendix 1

### Definitions

Term	Definition
ESG Financial Considerations	environmental, social and governance factors (including climate change) that are material to the sustainability of an <i>investment</i> .
Non-Financial Matters	factors which may influence a <i>firm's investment</i> strategy or decision, and which are based on the views (including ethical concerns regarding environmental, social and governance issues) of the <i>firm's clients</i> or <i>relevant policyholders</i> .
Governance Advisory Arrangement	(in <i>PRIN</i> , and <i>COBS 19.5</i> ) an arrangement between a <i>firm</i> and a third party under which the third party establishes a committee to represent the interests of: (a) <i>relevant policyholders</i> in the <i>firm's relevant scheme</i> ; or (b) <i>retail clients</i> investing in a <i>pathway investment</i> offered by the <i>firm</i> .
Other Financial Considerations	factors (other than <i>ESG financial considerations</i> ) that are material to the financial performance of an <i>investment</i> or <i>investment strategy</i> .
Pathway Investment	an investment that corresponds to the <i>investment pathway</i> options in <i>COBS 19.10.17R(1)</i> .
Relevant Scheme	(in <i>PRIN</i> , <i>SYSC 3.2</i> , <i>SYSC 4.1</i> and <i>COBS 19.5</i> ) a <i>personal pension scheme</i> or <i>stakeholder pension scheme</i> for which direct payment arrangements are, or have been, in place, and under which contributions have been paid for two or more <i>employees</i> of the same employer. 'Direct payment arrangements' has the same meaning as in section 111A of the Pension Schemes Act 1993, that is, arrangements under which contributions fall to be paid by or on behalf of the employer towards the scheme (a) on the employer's own account (but in respect of the employee); or (b) on behalf of the employee out of deductions from the employee's earnings.
Relevant Policyholders	(in <i>SYSC 3.2</i> , <i>SYSC 4.1</i> and <i>COBS 19.5</i> ) a member of a <i>relevant scheme</i> who is or has been a worker entitled to have contributions paid by or on behalf of his employer in respect of that <i>relevant scheme</i> . 'Worker' has the same meaning as in section 88 of the Pensions Act 2008, that is, in summary, an individual who has entered into or works under (a) a contract of employment, or (b) any other contract by which the individual undertakes to do work or perform services personally for another party to the contract.
Retail Client	in accordance with <i>COBS 3.4.1 R</i> , a <i>client</i> who is neither a <i>professional client</i> or an <i>eligible counterparty</i> , nor a member of a Relevant Scheme already in the remit of the IGC.

## Appendix 2

### Key provisions of COBS 19.5

#### Independent governance committees (IGCs) and publication and disclosure of costs and charges

##### Definitions

##### COBS 19.5.1AR

In this section:

(1A) “employer pension arrangements” means an arrangement where eligibility for membership of that arrangement or section is limited to the employees of a specified employer or employers;

(1AA) “investment performance” means the investment performance of the:

- (a) pension savings of relevant policyholders; or
- (b) the drawdown fund of pathway investors;

(1) “drawdown fund” means either a capped drawdown pension fund or a flexi-access drawdown pension fund;

(2) “offer” means where a firm (F1) makes a pathway investment available for investment in the drawdown fund which F1 operates, where the pathway investment is either:

- (a) manufactured by F1; or
- (b) manufactured by another firm (F2);

(3A) “pathway investment comparators” means other pathway investments (that are not provided by the firm) selected by an IGC under COBS 19.5.5R(2A)(e)(i) to (iii) and which:

- (a) are individual pathway investments; or
- (b) are cohorts of similar pathway investments;

(3) “pathway firm” means a firm which offers a pathway investment;

(4) “pathway investor” means a retail client investing in a firm’s pathway investment;

(5A) “scheme comparators” means other pension arrangements (that are not provided by the firm) selected by an IGC under COBS 19.5.5R(2)(e)(i) to (iii) and which:

- (a) are individual employer pension arrangements; or
- (b) are cohorts of similar employer pension arrangements;

(5AA) “services” refers to the services provided by a firm to relevant policyholders or pathway investors and includes:

- (a) the communications issued to relevant policyholders or pathway investors; and
- (b) the administration of the relevant scheme or pathway investment;

(5) “referring” means a firm which arranges for a retail client to invest in a pathway investment available through a transfer to the drawdown fund operated by another firm (F2), where F2 offers its own manufactured pathway investment;

(6) “stewardship” relates to a firm’s exercise of rights or engagement activities in relation to the investments attributable to the firm’s relevant policyholders or pathway investors, and may include:

- (a) the exercise of a firm’s voting rights in those investments; and
- (b) monitoring and engaging on matters such as strategy, performance, risk, culture and governance of the investments;

(7) “IGC’s remit of review” means the remit of the IGC as described in COBS 19.5.5R(2), COBS 19.5.5R(2A), COBS 19.5.5R(2B), COBS 19.5.5R(2C), and, where applicable COBS 19.5.5R(2D) and COBS 19.5.5R(2E).

## Purpose

### COBS 19.5.1BG

The purpose of this section is:

(1) to ensure that relevant policyholders and pathway investors benefit from independent review of the investments they invest in through the establishment of an IGC or (where appropriate) a governance advisory arrangement.

The specific objectives of the IGC or governance advisory arrangement are to:

- (a) assess whether a firm provides value for money for relevant policyholders or pathway investors;
- (b) provide an independent consideration of a firm’s policies on:
  - (i) ESG financial considerations;
  - (ii) non-financial matters;
  - (iii) stewardship; and
  - (iv) where applicable, other financial considerations to the extent that they pose a particular and significant risk of financial harm to the relevant policyholders or pathway investors.

## Terms of reference for an IGC

### COBS 19.5.5R

A firm must include, as a minimum, the following requirements in its terms of reference for an IGC:

(1) the IGC will act solely in the interests of:

- (a) relevant policyholders and any other members or clients a firm asks the IGC to consider; or
- (b) pathway investors;

(2) the IGC will assess the ongoing value for money for relevant policyholders delivered by a relevant scheme particularly, though not exclusively, through assessing the three factors in (a) to (c) below, taking into account the specific points in (d) to (g):

- (a) the level of charges and costs, in particular:
  - (i) administration charges and any transactions costs borne by relevant policyholders; and
  - (ii) any other charges borne by relevant policyholders and any other costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the pension savings of relevant policyholders;
- (b) investment performance; and
- (c) the quality of services including whether:
  - (i) the communications are fit for purpose and properly take into account the characteristics, needs and objectives of the relevant policyholders; and
  - (ii) core financial transactions are processed promptly and accurately, such as processing contributions, transfers or death benefits;



(d) as part of the ongoing value for money assessment in (2), the IGC will need to consider whether to assess the relevant scheme by reference to employer pension arrangements on an individual basis or on an aggregated basis using cohorts of sufficiently similar employer pension arrangements, or a combination of both, to enable the IGC to produce a value for money assessment that is the most useful for the members of the relevant scheme, but which is also appropriate and proportionate in the circumstances;

(e) as part of the ongoing value for money assessment in (2)(a)(i), (b) and (c), the IGC will need to:

(i) consider whether individual employer pension arrangements or cohorts of employer pension arrangements, or a combination of both, would be most appropriate to be part of its scheme comparators taking into account the proportionality and usefulness of each;

(ii) (where it selects cohorts of employer pension arrangements as part of its scheme comparators) select sufficiently similar employer pension arrangements that enable the IGC to produce an assessment that is the most useful for the members of the relevant scheme;

(iii) select a small number of reasonably comparable scheme comparators (including those which could potentially offer better value for money in respect of factors (2)(a)(i), (b) and (c));

(iv) use reasonable endeavours to obtain and compare the relevant data that it needs to carry out useful assessments in respect of the factors set out in (2)(a)(i), (b) and (c), in a manner which is proportionate to the likely member benefits that will result from the IGC assessing the data;

(v) assess the relevant scheme by reference to the scheme comparators based on factors (2)(a)(i), (b) and (c) (to the extent that there is publicly, or readily, available information about the scheme comparators in respect of those factors); and

(vi) consider whether any of the scheme comparators offer better value for money for relevant policyholders based on factors (2)(a)(i), (b) and (c) (to the extent that there is publicly, or readily, available information about the scheme comparators in respect of those factors);

(f) as part of the assessment of quality of services in 2(c), the IGC will need to assess whether default investment strategies within those schemes:

(i) are designed and executed in the interests of relevant policyholders; and

(ii) have clear statements of aims and objectives;

(g) as part of the assessment of quality of services in 2(c), the IGC will need to assess whether the characteristics and net performance of investment strategies are regularly reviewed by the firm to ensure alignment with the interests of relevant policyholders and that the firm takes action to make any necessary changes;

(2A) the IGC will assess the ongoing value for money for pathway investors delivered by a pathway investment particularly, though not exclusively, through assessing the three factors in (a) to (c) below, taking into account the specific points in (d) to (g):

(a) the level of charges and costs in particular:

(i) administration charges and any transactions costs borne by pathway investors; and



(ii) any other charges borne by pathway investors and any other costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the drawdown fund of pathway investors;

(b) investment performance; and

(c) the quality of services including whether:

(i) the communications are fit for purpose and properly take into account the characteristics, needs and objectives of the pathway investors; and

(ii) core financial transactions are processed promptly and accurately, such as processing contributions, transfers or death benefits;

(d) as part of the ongoing value for money assessment in (2A), the IGC will need to consider whether to assess the pathway investment on an individual basis or on an aggregated basis using cohorts of sufficiently similar pathway investments, or a combination of both, to enable the IGC to produce a value for money assessment that is the most useful for the pathway investors, but which is also appropriate and proportionate in the circumstances;

(e) as part of the ongoing value for money assessment in (2A)(a)(i), (b) and (c), the IGC will need to:

(i) consider whether individual pathway investments or cohorts of pathway investments, or a combination of both, would be most appropriate to be part of pathway investment comparators taking into account the proportionality and usefulness of each;

(ii) (where it selects cohorts of pathway investments as part of its pathway investment comparators) select sufficiently similar pathway investments that enable the IGC to produce an assessment that is the most useful for the pathway investors;

(iii) select a small number of reasonably comparable pathway investment comparators (including those which could potentially offer better value for money in respect of factors (2A)(a)(i), (b) and (c));

(iv) use reasonable endeavours to obtain and compare the relevant data that it needs to carry out useful assessments in respect of the factors set out in (2A)(a)(i), (b) and (c), in a manner which is proportionate to the likely pathway investor benefits that will result from the IGC assessing the data;

(v) assess the pathway investment by reference to the pathway investment comparators based on factors (2A)(a)(i), (b) and (c) (to the extent that there is publicly, or readily, available information about the pathway investment comparators in respect of those factors); and

(vi) consider whether any of the pathway investment comparators offer better value for money for pathway investors based on factors (2A)(a)(i), (b) and (c) (to the extent that there is publicly, or readily, available information about the pathway investment comparators in respect of those factors);

(f) as part of the assessment of quality of services in (2A)(c), the IGC will need to assess whether the pathway investment offered by the firm:

(i) is designed and managed in the interests of pathway investors; and

(ii) has a clear statement of aims and objectives;

(g) as part of the assessment of quality of services in (2A)(c), the IGC will need to assess whether the characteristics and net performance of the pathway investment are regularly reviewed by the firm to ensure alignment with the interests of pathway investors and that the firm takes action to make any necessary changes;

(2B) where a firm has an investment strategy or makes investment decisions which could have a material impact on the relevant policyholders or pathway investors' investment returns, the IGC will consider and report on:

- (a) the adequacy and quality of the firm's policy (if any) in relation to ESG financial considerations;
- (b) the adequacy and quality of the firm's policy (if any) in relation to non-financial matters; and
- (c) how the considerations or matters in (a) and (b) are taken into account in the firm's investment strategy or investment decision making; and
- (d) the adequacy and quality of the firm's policy (if any) in relation to stewardship;

(2C) where the firm does not have a policy in relation to ESG financial considerations, non-financial matters or stewardship, the IGC will in each case consider and report on the firm's reasons for not having a policy;

(2D) where the firm has not already adequately taken into account, in its investment strategy or investment decision making, other financial considerations that pose a particular and significant risk of financial harm to the relevant policyholders or pathway investors, the IGC will also:

- (a) consider and report on the adequacy and quality of the firm's policy (if any) in relation to those other financial considerations, and whether and how those considerations are taken into account in the firm's investment strategy or investment decision; or
- (b) consider and report on the firm's reasons for not having a policy in relation to those considerations;

(2E) the IGC will consider and report on the extent to which the firm has implemented its stated policies in relation to the considerations and matters in (2B), (2C), and, where applicable (2D);

(3) in relation to the IGC's remit of review, the IGC will raise with the firm's governing body any concerns it may have:

- (a) in relation to any of the matters it has assessed or considered; or
- (b) where the IGC is unable to obtain or has difficulties obtaining from the firm the information it requires;

(3A) once a decision has been made by a firm to offer a pathway investment, the IGC must raise any concerns under (3):

- (a) in good time to give the firm's governing body a proper opportunity to consider and address the IGC's concerns, before the pathway investment is offered to retail clients; and
- (b) on an ongoing basis in relation to the pathway investment it offers;

(4) the IGC will escalate concerns as appropriate where the firm has not, in the IGC's opinion, addressed those concerns satisfactorily or at all;

(5) the IGC will meet, or otherwise make decisions to discharge its duties, using a quorum of at least three members, with the majority of the quorum being independent;

(6) the Chair of the IGC will be responsible for the production of an annual report setting out the following, in sufficient detail, taking into account the information needs of consumers:

(a) the IGC's opinion on:

(i) the value for money delivered by a relevant scheme or a pathway investment, particularly against the matters listed under (2) or (2A) and a statement setting out their overall assessment of whether the relevant scheme or pathway investment provides value for money; and

(ii) the adequacy and quality of the firm's policies, or reasons for not having policies, in relation to the considerations and matters listed under (2B), (2C) and (if applicable) (2D);

(aa) the extent to which the firm has implemented its stated policies in relation to the consideration and matters in (2B), (2C) and (if applicable) (2D);

(ab) an explanation of how the IGC carried out their assessment of ongoing value for money. This must include demonstrating how the factors set out in (2)(a) to (c) or (2A)(a) to (c) have been fully and properly considered;

(ac) the reasons:

(i) for the IGC's overall assessment of whether the relevant scheme or pathway investment provides value for money as required under (6)(a)(i);

(ii) (in relation to a relevant scheme only), where the IGC assessed the relevant scheme using cohorts of employer pension arrangements for the purposes of its general assessment in (2)(d) or used cohorts as part of the scheme comparators in (2)(e), why the IGC considers it is appropriate and proportionate to use cohorts and the IGC's reasons for using the characteristics that it used to select the cohorts;

(iii) (in relation to a relevant scheme only), why the IGC considers that the scheme comparators it selected for the purposes of its assessment under (2)(e) provided a reasonable comparison against the relevant scheme;

(iv) (in relation to a pathway investment only), where the IGC assessed the pathway investment using cohorts of pathway investments for the purposes of its general assessment in (2A)(d) or used cohorts as part of the pathway investment comparators in (2A)(e), why the IGC considers it is appropriate and proportionate to use cohorts of pathway investments and the IGC's reasons for using the characteristics that it used to select the cohorts; and

(v) (in relation to a pathway investment only) why the IGC considers that the pathway investment comparators it selected for the purposes of its assessment under (2A)(e) provided a reasonable comparison against the pathway investment;

(b) how the IGC has considered relevant policyholders' or pathway investors' interests;

(c) any concerns raised by the IGC with the firm's governing body and the response received to those concerns;

(d) how the IGC has sufficient expertise, experience and independence to act in relevant policyholders' or pathway investors' interests;

- (e) how each independent member of the IGC, together with confirmation that the IGC considers these members to be independent, has taken into account COBS 19.5.12G;
  - (f) the arrangements put in place by the firm to ensure that the views of relevant policyholders or pathway investors' are directly represented to the IGC; and
  - (g) administration charges and transaction costs information complying with the requirements in COBS 19.5.16R;
- (7) the Chair of the IGC will ensure the annual report is produced by 30 September each year, in respect of the previous calendar year;
- (8) the IGC will ensure the publication of administration charges and transaction costs information complying with the requirements in COBS 19.5.13R;
- (9) the IGC will ensure that all members of each relevant scheme are provided with an annual communication complying with the requirements in COBS 19.5.17R;
- (10) the IGC will make available the annual communication referred to in (9), on request, to:
- (a) relevant scheme members' spouses or civil partners; and
  - (b) persons within the application of the relevant scheme and qualifying or prospectively qualifying for benefits under the relevant scheme;
- (11) the IGC will ensure that information is communicated under this rule in a manner that pays due regard to the purposes for which relevant policyholders might reasonably use the information; and
- (12) the IGC will retain copies of any evidence used in their assessment of ongoing value for money for a minimum of six years.

## Value for money assessment

### COBS 19.5.5AG

- (1) In the context of the IGC's assessment of ongoing value for money for relevant policyholders or pathway investors under COBS 19.5.5R(2) or COBS 19.5.5R(2A):
- (a) the administration charges and transaction costs borne by relevant policyholders or pathway investors are likely to represent value for money when the combination of the charges and costs, and the investment performance and services are appropriate:
    - (i) for the relevant policyholders or pathway investors, and
    - (ii) when compared to other reasonably comparable options on the market.
  - (b) As part of the IGC's assessment under (1)(a)(i) regarding what is appropriate for relevant policyholders, the IGC should consider the size of the employer and the size and demographic of the membership of the relevant scheme.
  - (c) The IGC should not use a firm's compliance with the limits on administration charges (COBS 19.6.6R), of itself, as evidence of value for money.
  - (d) Where the limits on administration charges in COBS 19.6.6R do not apply, the IGC should not use the fact that a firm keeps its administration charges at or below 1%, of itself, as evidence of value for money.

(2) The IGC should take into account the considerations in (3), as part of the IGC's:

(a) decision referred to in COBS 19.5.5R(2)(d) about whether to carry out its ongoing value for money assessment of the relevant scheme by assessing the employer pension arrangements on an individual or cohort basis; or

(b) selection of scheme comparators under COBS 19.5.5R(2)(e)(i) to (iii).

(3) The considerations referred to in (2) are:

(a) the size and demographic of the membership of the individual employer pension arrangements and/or any proposed cohorts;

(b) (where cohorts are proposed), any other characteristics that it would be appropriate and proportionate for the IGC to use, in the particular circumstances of the relevant scheme, as part of its cohort selection criteria; and

(c) (if the IGC has used cohorts of employer pension arrangements in any part of its ongoing value for money assessment under COBS 19.5.5R(2)) whether it would be appropriate and proportionate also to assess any particular employer pension arrangements within the cohorts on an individual basis in order to be able to carry out the most useful assessment under COBS 19.5.5R(2).

(4) The IGC should take into account the considerations in (5), as part of the IGC's:

(a) decision referred to in COBS 19.5.5R(2A)(d) about whether to carry out its ongoing value for money assessment of the pathway investment by assessing the pathway investment on an individual or cohort basis; or

(b) selection of pathway investment comparators under COBS 19.5.5R(2A)(e)(i) to (iii).

(5) The considerations referred to in (4) are:

(a) (where cohorts are proposed), any characteristics that it would be appropriate and proportionate for the IGC to use, in the particular circumstances of the pathway investment, as part of its cohort selection criteria; and

(b) (if the IGC has used cohorts of pathway investments in any part of its ongoing value for money assessment under COBS 19.5.5R(2A)) whether it would be appropriate and proportionate to also assess any particular pathway investments within the cohorts on an individual basis in order to be able to carry out the most useful assessment under COBS 19.5.5R(2A).

(6) As part of the IGC's selection of scheme comparators or investment pathways comparators under COBS 19.5.5R(2)(e)(i) to (iii) or COBS 19.5.5R(2A)(e)(i) to (iii), the IGC will need to include scheme comparators or pathway investment comparators that potentially offer better value for money in respect of the factors set out in COBS 19.5.5R(2)(a)(i), (b) and (c) or COBS 19.5.5R(2A)(a)(i), (b) and (c) (based on whatever information is publicly, or readily, available and is relevant to those factors).

(7) There is no expectation by the FCA that the IGC would carry out a comparison of all the comparable employer pension arrangements or all of the comparable pathway investments for the purposes of COBS 19.5.5R(2)(e) or COBS 19.5.5R(2A)(e).

## Interests of relevant policyholders or pathway investors and consideration of adequacy and quality of a policy

### COBS 19.5.6G

(1) An IGC is expected to act in the interests of relevant policyholders or pathway investors both individually and collectively. Where there is the potential for conflict between individual and collective interests, the IGC should manage this conflict effectively. An IGC is not expected to deal directly with complaints from individual policyholders or pathway investors.

(2) The primary focus of an IGC should be the interests of relevant policyholders or pathway investors in accordance with COBS 19.5.5R(1). If a firm asks an IGC also to consider the interests of other members or clients, the firm should provide additional resources and support to the IGC such that the IGC's ability to act in the interests of relevant policyholders or pathway investors is not compromised.

(3) An IGC should assess whether all the investment choices available to relevant policyholders or pathway investors, including default options, are regularly reviewed to ensure alignment with the interests of relevant policyholders or pathway investors.

(4) Where an IGC is unable to obtain from a firm, and ultimately from any other person providing relevant services, the information it requires to assess or to consider and report on the matters in the IGC's remit of review, the IGC should explain in the annual report why it has been unable to obtain the information and how it will take steps to be granted access to that information in the future.

(5A) In addition to the ability of the IGC to escalate a concern about value for money under (5), if the IGC finds that:

(a) any of the scheme comparators offer better value for money for relevant policyholders than the relevant scheme based on the factors set out in COBS 19.5.5R(2)(a)(i), (b) and (c); or

(b) any of the investment pathway comparators offer value for money for pathway investors than the pathway investment based on the factors set out in COBS 19.5.5R(2A)(a)(i), (b) and (c),

the IGC should bring this matter, together with an explanation and relevant evidence, to the attention of the firm's governing body.

(5AA) If the IGC is not satisfied with the response of the firm's governing body to the concerns it has raised under (5A) and the IGC considers that informing the relevant employer or employers could be of material utility to the employers or the members regarding the IGC's concern about value for money under (5), the IGC should inform the relevant employer or employers directly.

(5AAA) In (5AA), an example of circumstances where an IGC may consider that informing the employer would be unlikely to be of material utility is where there are solely deferred members in any affected employer pension arrangement and the employer does not have the ability to effect a transfer of the deferred benefits from the employer pension arrangement to a new arrangement.

(5) If, having raised concerns with the firm's governing body about the matters in the IGC's remit of review, the IGC is not satisfied with the response of the firm's governing body, the IGC Chair may escalate concerns to the FCA if the IGC thinks that would be appropriate. The IGC may also alert relevant policyholders or pathway investors and employers and make its concerns public.

(6) The IGC Chair should raise with the firm's governing body any concerns that the IGC has about the information or resources that the firm provides, or arrangements that the firm puts in place to ensure that the views of relevant policyholders or pathway investors are directly represented to the IGC. If



the IGC is not satisfied with the response of the firm's governing body, the IGC Chair may escalate its concerns to the FCA, if appropriate. The IGC may also make its concerns public.

(7) The IGC should make public the names of those members of the IGC who are employees of the provider firm, unless there are compelling reasons not to do so. The IGC should consult employee members as to whether there are such reasons.

(8) The IGC need not consider and report on ESG financial considerations or non-financial matters or stewardship or other financial considerations as set out in COBS 19.5.5R(2B) and COBS 19.5.5R(2D) if the firm does not have an investment strategy or make investment decisions which could have a material impact on the relevant policyholders or pathway investors' investment returns.

(9) The IGC should only consider and report on other financial considerations as set out in COBS 19.5.5R(2D) where it considers that:

(a) they are likely to pose a particular and significant risk of financial harm to the relevant policyholders or pathway investors; and

(b) the firm has not already adequately taken those other financial considerations into account in its investment strategy or investment decision making.

(10) When an IGC is considering the adequacy and quality of a firm's policies regarding ESG financial considerations, non-financial matters, stewardship or other financial considerations, the IGC should form a view as to whether:

(a) a policy sufficiently characterises the relevant risks or opportunities;

(b) it considers that a policy seeks to appropriately mitigate those risks and take advantage of those opportunities;

(c) a firm's processes have been designed to properly take into account those risks or opportunities;

(d) a policy is appropriate in the context of the expected duration of the investment; and

(e) a policy is appropriate in the context of the main characteristics of the actual or expected relevant policyholders or pathway investors.

(11) Where an IGC is considering whether a firm has adequately taken other financial considerations into account for the purposes of COBS 19.5.5R(2D), it should also take into account the factors in COBS 19.5.6(10)G, whether or not contained in a policy.

## **Publication and disclosure of costs and charges by IGCs**

### **COBS 19.5.13R**

The administration charges and transactions costs information referred to in COBS 19.5.5R(8) must, in relation to each relevant scheme:

(1) be published by 30 September each year, in respect of the previous calendar year;

(2) be available for free on a publicly accessible website;

(3) include the costs and charges for each default arrangement and each alternative fund option that a member is able to select; and

(4) include an illustration of the compounding effect of the administration charges and transaction costs, based on either the assumptions contained in COBS 13 Annex 2 or those in Version 4.2 of the Actuarial Standard Technical Memorandum (AS TM1) produced by the



Financial Reporting Council, for a representative range of fund options that a member is able to select.

#### **COBS 19.5.14R**

Regarding transaction costs:

- (1) the requirements in [COBS 19.5.13R\(3\)](#) and [COBS 19.5.16R\(1\)](#) apply to the extent that such information is available to the [IGC](#); and
- (2) the published information should include a warning giving brief details of any unavailable information that the [IGC](#) is aware of.

#### **COBS 19.5.16R**

The administration charges and transaction costs information in the [IGC's](#) annual report referred to in [COBS 19.5.5R\(6\)\(g\)](#) must, in relation to each [relevant scheme](#):

- (1) at a minimum, include the costs and charges for each default arrangement;
- (2) explain how a [relevant scheme](#) member can access the costs and charges information for each default arrangement and each alternative fund option that a member is able to select, including providing a link to the website required by [COBS 19.5.13R\(2\)](#); and
- (3) be published alongside any information in the [IGC's](#) annual report relating to the [relevant scheme's](#) default investment strategy and value for members.

#### **COBS 19.5.17R**

The annual communication referred to in [COBS 19.5.5R\(9\)](#) must:

- (1) include a brief description of the most recent transaction costs and administration charges information that has been published in accordance with [COBS 19.5.13R](#), and an explanation of how that information is relevant to the [relevant scheme](#) member; and
- (2) explain how a [relevant scheme](#) member can access the information referred to in (1), including providing a link to the website required by [COBS 19.5.13R\(2\)](#).

#### **COBS 19.5.18G**

The annual communication may be included with any other annual communication from the [operator](#) to the member of the [relevant scheme](#).

#### **COBS 19.5.19 G**

The annual communication provided to a [relevant scheme](#) member may also include the particular transaction costs and administration charges that have been incurred by that member.

#### **COBS 19.5.20G**

In communicating information in compliance with [COBS 19.5.5R\(11\)](#), the [IGC](#) should ensure, for example, that it is straightforward for a [relevant scheme](#) member to compare the transaction costs and administration charges between fund options that are available for them to select.