PILLAR 4

Chapter 5: Proposal for a More Prescriptive Approach to SIPP Operators

Chapter 5 of the **Discussion Paper DP24/3** addresses the regulation of Self-Invested Personal Pensions (SIPPs) and outlines proposals for strengthening regulatory requirements, particularly concerning the safeguarding of pension scheme money and assets. The FCA seeks to ensure more consistent consumer protection, improve the effectiveness of supervision, and address consumer harm related to SIPPs.

Key Issues Identified:

1. **Due Diligence and Consumer Protection:**
   - The FCA has concerns about how SIPP operators handle consumer funds and assets, particularly with regard to due diligence. While there are high-level principles in the Handbook, the FCA proposes more detailed, prescriptive rules to enhance consumer protection.
   - Many SIPP operators rely on third parties for record-keeping, which can lead to errors or fraud. These issues are compounded by insufficient due diligence, causing consumer harm, including inaccurate valuations and delays in asset transfers when firms fail or transfer their business to a new operator.
2. **Lack of Prescriptive Rules for Asset Management:**
   - The FCA highlights that, currently, many SIPP operators lack detailed requirements for managing client money and assets. In some cases, the records maintained by third parties are insufficient, leading to challenges in reconciliation and potential misreporting.
   - A lack of clarity in regulations has led to some firms having inadequate systems, potentially exposing consumers to risks like fraud or errors in asset valuations.
3. **Proposed More Prescriptive Approach:**
   - The FCA proposes setting clearer rules to guide SIPP operators on managing client money, conducting reconciliations, and safeguarding pension assets. This includes applying consistent requirements across the sector to improve the standard of consumer protection.
   - The FCA aims to establish a common standard of regulatory protection, ensuring that pension scheme money and assets are handled securely and transparently. More frequent and detailed reconciliations are suggested to mitigate the risk of errors or fraud.
4. **Due Diligence and Trustee Bank Accounts:**
   - Concerns have been raised regarding the lack of oversight in trustee bank accounts, with some firms failing to conduct timely reconciliations or relying too heavily on external bank data. This has led to errors, and in extreme cases, fraud or shortfalls in pension scheme accounts.

- A more prescriptive approach is seen as a way to improve control, ensure compliance, and better protect consumers.

5. **Pension Scheme Asset Management:**
    - Different SIPP structures lead to varying levels of oversight for pension assets, especially for bespoke SIPPs. Many SIPP operators rely on third-party administrators or custodians for asset management, but there are no prescriptive rules requiring firms to independently verify or maintain records for assets held in trust.
    - The FCA is concerned about firms that rely on third-party records for scheme and member-level data, leading to possible inaccuracies and errors.

6. **Valuations and Reconciliations:**
    - Inconsistencies in how valuations are performed and how often they are updated are a key issue. Firms with manual valuation processes may not update data in a timely manner, leading to inaccurate valuations or incomplete reporting.
    - The FCA emphasises the need for more frequent and reliable reconciliations to ensure accurate asset valuations and to support consumer decision-making.

7. **Implementation Costs and Potential Unintended Consequences:**
    - While the FCA acknowledges that implementing these prescriptive rules would incur costs for firms—particularly in terms of system upgrades and staff training—these costs are seen as necessary to prevent consumer harm and ensure greater transparency.
    - The FCA also seeks feedback on potential unintended consequences, such as whether the proposed changes could lead to higher costs for consumers or inadvertently harm certain segments of the market.

Discussion Prompts:

The FCA invites feedback on the following points:

- What firms should do when selecting custodians or third-party administrators and how frequently they should assess the ongoing suitability of these parties.
- When it is appropriate for firms to rely on third-party records for scheme and member-level data.
- The broader challenges in maintaining independent internal records and conducting frequent valuations or reconciliations.
- The role of external assurance in improving oversight and ensuring accurate record-keeping.
- The costs and potential unintended consequences for firms and consumers in implementing the proposed changes.

Conclusion:

Chapter 5 emphasizes the importance of improving oversight and consumer protection in the SIPP market. The FCA's proposals aim to create a more prescriptive regulatory environment that would lead to more consistent standards across firms, better safeguards for pension scheme money and assets, and greater transparency for consumers. The chapter also acknowledges the challenges and costs that firms may face in implementing these changes and seeks stakeholder input to refine the proposals.