

Analysis

Updated Myners principles and the implications for scheme governance

January 2009/Issue 167



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In October 2008, the Treasury published its response to a consultation on the Myners principles, which came into effect in 2002. The key themes are:

- There will be greater industry ownership of the principles, guidance and trustee tools through the establishment of a joint Government-industry Investment Governance Group (IGG).
- There are a smaller number of simplified, higher-level principles.
- These principles will be linked to a body of higher quality, more selective and accessible guidance and trustee tools.
- There will be a more robust approach to disclosure and industry debate, within a voluntary 'comply or explain' approach.

We are supportive of the Treasury's proposals and agree that the Myners principles needed updating to ensure that they continue to be relevant.

The economic and investment backdrop has changed markedly since their inception. UK pension scheme trustees are being faced with more and more complex investment related decisions and the range of options available to them continues to multiply. This also means that governance issues have increased in importance and we believe it is right that the principles should be updated to reflect this.

Background

In March 2000, the Treasury commissioned Paul Myners to conduct a review of institutional investment in the UK. The Myners report was published in 2001; it highlighted shortcomings in the expertise and organisation of investment decision-making by pension fund trustees and proposed a series of principles that trustees adopt on a 'comply or explain' basis.

There have been several related developments since, including the refinement of some of the principles; the development of an online Trustee Toolkit by the Pensions Regulator to help trustees meet new statutory knowledge and understanding requirements as set out in the Pensions Act 2004; and the development of a revised version of the Institutional Shareholders Committee principles on shareholder activism.

In 2007, the NAPF reviewed the extent to which institutional investors have adopted the Myners principles in their investment decision-making. It concluded that overall standards of governance of UK pension schemes have continued to improve and that trustees' compliance with the principles has increased. The NAPF also made recommendations to bring the principles in line with current best practice and to replace the current ten principles with six high level principles.

Key points from the 2007 review include the following:

- Trusteeship has become more complex since the principles were first published due to a difficult financial environment and an increased regulatory burden.
- There has been an increase in compliance across all 10 principles, but progress has not always been even.
- There has been a step change in trustees' knowledge and understanding.
- The principles remain relevant, but are in need of refreshing to ensure they continue to reflect best practice and take account of legislative, regulatory and market developments since 2001. There was also scope to simplify and consolidate the principles.
- Targeted help and support are needed to tackle areas of under-compliance, notably trustee self assessment and small schemes.
- The principles should continue to be voluntary but with additional 'comply or explain' reporting for schemes with assets in excess of £250m.

Treasury's 2008 consultation

In response to the NAPF's review, the Treasury launched a consultation which proposed adopting the NAPF's recommended approach subject to some minor changes. In October 2008 the Treasury published its response to the consultation. The key themes which came out of the consultation process are:

- There will be greater industry ownership of the principles, guidance and trustee tools through the establishment of a joint Government-industry **Investment Governance Group (IGG)**.

The IGG will own the updated principles, monitor their effectiveness, the quality of reporting against them and make recommendations for improvements to investment decision making and governance. The Group will be chaired by the Pensions Regulator and sponsored by the Treasury and DWP (Department of Work and Pensions) as well as including industry representatives and trustees. The members of the IGG have already been selected. The Government envisages that the IGG will establish an annual work programme, and report to its sponsors (HMT and DWP) and more widely on an annual basis.

The Treasury has tasked the IGG with updating the principles for DC and smaller schemes. A representative from a local government pension scheme (LGPS) will sit on the IGG and adapt the guidance for LGPS usage. The IGG has also been tasked initially with providing guidance on the location and content of reporting by trustees.

- There will be a **smaller number of simplified, higher-level principles**.

The updated principles, which came into effect on 3rd October 2008 are less prescriptive, which the Government hopes will help them to be more effective through trustees being more likely to report against them. The Government believes the updated principles will provide more flexibility for different types of schemes, in particular **smaller schemes, DC schemes and local government pension schemes**.

- These principles will be linked to a body of higher quality, more selective and accessible **guidance and trustee tools**.

It is the intention that the Pensions Regulator will maintain a central website with links to the principles, best practice guidance and trustee tools.

- There will be a **more robust approach to disclosure and industry debate**, within a voluntary 'comply or explain' approach.

Compliance with the Myners principles has always been optional. A 'comply or explain' approach is thought to be sufficient to ensure that trustees at least consider the key issues.



Updated Myners principles

The updated Myners principles are as follows:

- (1) **Effective decision making** – Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
- (2) **Clear objectives** - Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme’s liabilities, the strength of the sponsor covenant as well as the attitude to risk of both the trustees and the scheme sponsor, and clearly communicate these to advisers and investment managers.
- (3) **Risk and liabilities** - In setting and reviewing their investment strategy, trustees should take account of the form and structure of the liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.
- (4) **Performance assessment** - Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.
- (5) **Responsible ownership** - Trustees should adopt, or ensure that their investment managers adopt, the Institutional Shareholders’ Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme’s policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.
- (6) **Transparency and reporting** - Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

Hewitt's view

There is little doubt that the underlying aims of the original Myners principles remain as relevant as when they were introduced. However, the economic and investment backdrop has changed markedly since their inception. UK pension scheme trustees are being faced with more complex investment related decisions and the range of options available to them continue to multiply. This also means that governance issues have increased in importance and we believe it is right that the principles should be updated to reflect this.

Hewitt submitted a formal response to the Treasury's consultation. In the response we expressed the view that we were supportive of the initiatives aimed at progressing the NAPF's principal findings and recommendations. However, we stated that there were some areas which could have benefited from further consideration. This included clarification on the mandate given to the Investment Governance Group and the need for an increased focus on DC and smaller schemes. In the consultation response, the Treasury stated that it expected the IGG to have an annual work programme with regular reporting to its sponsors and more widely on an annual basis. The IGG's initial work plan will include updating the Myners principles for DC and smaller schemes. This goes some way to addressing Hewitt's main concerns.

Next steps for trustees

The publication of an updated set of Myners principles together with the release of new best practice guidance and trustee tools should help bring scheme governance firmly back onto trustees' agenda. Trustees should familiarise themselves with new principles, guidance and tools. It is important that trustees devote sufficient time to governance issues and in particular ensure that they are satisfied that the governance structure they have in place is appropriate for the scheme.

A good place to start would be for trustees to assess their scheme against the updated principles, establish how governance of their scheme could be improved and map out a plan for improvement.



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