

Updating the Myners principles: a response to consultation

October 2008



HM TREASURY

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Department for
Work and Pensions

The Pensions
Regulator 



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EXECUTIVE SUMMARY

In 2007 the Government asked the National Association of Pension Funds (NAPF) to assess the extent to which: pension fund trustees were applying the Myners principles; scheme governance and the quality of trusteeship had improved; and whether key gaps identified in a previous review had been addressed.

The Government accepted the NAPF's principal findings and recommendations. In particular, it agreed that the principles would be more effective if Government and industry developed more flexible and high-level voluntary principles, rather than prescribing how pension funds should manage specific aspects of their business. Therefore, the Government consulted on this proposed new approach.

The vast majority of respondents were supportive of the proposed approach and the Government has considered the responses carefully. They have played a valuable role in informing the Government's thinking on updating the Myners principles, which includes the following elements:

- A smaller number of higher-level principles will be used to provide more flexibility for schemes in terms of their size, financial position and strategy to explain their investment decision-making approach to stakeholders.
- These principles will be linked to a body of higher quality, more selective and accessible guidance and trustee tools.
- There will be greater industry ownership of the principles, guidance and trustee tools. Consequently decisions on the nature, scope and development of the principles, best practice guidance and trustee tools will be the responsibility of the joint Government-industry Investment Governance Group.
- There will be a more robust approach to disclosure and industry debate, within a voluntary 'comply or explain' approach.

This new framework, reinforced by the establishment of the Investment Government Group, gives greater industry ownership of the principles and places the onus on trustees to report on their own practices.

FOREWORD BY THE ECONOMIC SECRETARY TO THE TREASURY AND THE MINISTER FOR PENSIONS REFORM

We are delighted to present the Government's response to consultation on proposals to update the Myners principles and to continue to improve pension fund investment decision-making and governance.

In the current economic climate a well functioning investment chain is a vital driver of Britain's productivity and long-term sustainable growth. More effective trusteeship will benefit members of pension schemes of all sizes, financial position and strategy.

The Government has systematically sought to improve the effectiveness of the investment chain by strengthening corporate governance and increasing the transparency and accountability of companies. The Myners principles have contributed to this, but it is essential that they continue to adapt to reflect changes in the pensions environment. Last year we asked the National Association of Pension Funds (NAPF) to review progress in the application of the Myners principles. The Government welcomed the NAPF's review and recommendations, on which this consultation was based.

We are grateful for the wide range of high-quality responses received from companies, pension funds, member associations and interested individuals. A strong theme from the consultation was the importance of the industry collectively being involved. We agree. Therefore, as proposed, we are setting up immediately an independent Investment Governance Group under the chairmanship of the Pensions Regulator, to enable the pensions community to take responsibility for the content and implementation of the principles and associated guidance and best practice.

This group will have a mandate to tackle the issues identified in the proposals and endorsed in the consultation. It will have strong representation from highly experienced individuals involved in the governance of investment decision-making and, in particular, from trustees. Our departments will maintain an interest in the work of the group, but it is explicitly not the intention that the group should operate as a Government-run consultative committee.

More effective trusteeship is also likely to enhance the level and depth of shareholder engagement and public disclosure of voting by investors. This will continue the trend of more robust public debate in the area of investment decision-making and governance.

We thank all the respondents to the consultation for their interest and support and look forward to continuing to work with you in improving trustee governance and investment decision-making.



Kitty Ussher



Mike O'Brien

INTRODUCTION

1.1 The Myners principles codify best practice in investment decision-making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a ‘comply or explain’ basis how they have used them. The principles were announced in 2002 following a review of institutional investment by Paul Myners, which found shortcomings in the expertise and organisation of investment decision-making by pension fund trustees¹.

1.2 In 2004 the Government conducted a review of the operation of the principles². This review indicated that they have contributed to an improvement in trustee performance, albeit with more progress in some areas (e.g. trustee expertise and training), than others (e.g. more detailed consideration of investment time horizons and shareholder engagement).

1.3 Against this background, in 2007 the Government asked the National Association of Pension Funds (NAPF) to assess the extent to which: pension fund trustees are applying the principles; scheme governance and the quality of trusteeship have improved; and whether key gaps identified in the 2004 review had been addressed. The NAPF’s report³ confirmed that the Myners principles were well supported and represented a clear and coherent approach to investment decision-making. The review found that the greatest progress had been made in improving trustee knowledge and understanding; strategic asset allocation; utilising expert advice; adopting appropriate benchmarks; transparency and reporting; and, for larger schemes, activism and engagement. It also identified areas in which further work was desirable, for example in trustees’ self-assessment of their own performance and improving the utility of the principles for smaller schemes.

1.4 The Government accepted the NAPF’s principal findings and recommendations⁴. In particular, it agreed that the principles would be more effective if Government and industry developed them to be more flexible and high-level, rather than prescribing how pension funds should manage specific aspects of their business.

1.5 In March 2008 the Government consulted on proposals to update the Myners principles and establish a new industry-led framework for the application of the principles.

1.6 The consultation closed toward the end of June 2008 and the Government received a total of 54 responses. A full list of respondents is set out in Annex C. Respondents presented a range of views and opinions on the questions raised in the consultation document. This paper therefore sets out the Government’s response to the consultation and explains how the responses have informed the Government’s view.

¹ *Institutional Investment in the UK: A Review*, Paul Myners, March 2001

² *Myners principles for institutional investment decision-making: review of progress*, HM Treasury, December 2004

³ *Institutional Investment in the UK: Six years on*, NAPF, November 2007

⁴ *Kitty Ussher welcomes National Association of Pension Funds review of the Myners principles*, HM Treasury, 08 November 2007

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ISSUES RAISED BY RESPONDENTS TO THE CONSULTATION

2.1 The consultation document asked respondents to frame their responses around the following questions.

Q1: Will the proposed approach (comprising an updated set of principles, best practice guidance, trustee tools, better quality reporting and greater industry ownership of the principles) improve standards of investment decision-making and governance?

Q2: Do you agree with:

- The proposed updated principles?
- The proposed best practice supporting guidance?

Q3: Would pension fund trustees benefit from guidance on the content of reporting against the updated principles?

Q4: Should the proposed Investment Governance Group consider the need for guidance on the location of reporting by trustees on their application of the principles?

Q5: Should the proposed Investment Governance Group own the updated principles? If yes, are the proposed Terms of Reference for the Investment Governance Group the right ones?

Q6: Should the defined contribution principles be updated by the Investment Governance Group to reflect the changes to defined benefit principles and those market changes affecting defined contribution provision?

Q7: Should the Investment Governance Group take forward work to help small schemes in their application of the updated principles?

Q8: Should the proposed updated principles be adopted for Local Government Pension Scheme (LGPS) use and LGPS stakeholders be involved in the Investment Governance Group process?

RESPONSE TO THE PROPOSED APPROACH

2.2 There was support for the proposed approach of simplifying and condensing the principles into a smaller number of higher-level principles. Most respondents agreed that the principles remained relevant and there was a continuing need for them to act as a benchmark for investment governance.

2.3 Most respondents also agreed that the principles should be supported with best practice guidance (against which reporting was not necessary) and trustee tools. A number of qualifying points were however expressed:

- that guidance should not become a de facto requirement for trustees or a framework for tick box compliance;
- that guidance should be tailored to the needs of different classes of scheme, for example large and small;
- that the value of proposed guidance should be assessed rigorously and the growth of guidance for the sake of guidance should be avoided; and

- that trustee tools should be practical and easily implemented, with a preference for case studies or qualitative examples.

2.4 The majority of respondents supported the notion of ‘comply or explain’ reporting as set out in the consultation document:

- under a ‘comply or explain’ model, the expectation is not of mandatory compliance but of either compliance or an appropriately detailed explanation;
- trustees are expected to report on application of the principles, not the supporting best practice or use of the trustee tools, as the latter exist to support trustees’ application of the principles;
- the form and content of reporting should not be prescribed; and
- disclosure is not aimed solely at scheme membership, but also at the wider trustee community to help develop and spread best practice.

2.5 A number of respondents supported this less prescriptive approach but were nonetheless concerned that implementation would take a prescriptive course. Meanwhile a small number of respondents argued that more prescriptive and enforceable rules were needed to ensure appropriate disclosures were made. They argued that without the discipline of detailed requirements, the principles would fail to meet their objectives, as inevitably some trustees would not make sufficient use of them.

RESPONSE TO THE WORDING OF THE PRINCIPLES AND BEST PRACTICE GUIDANCE

2.6 A majority of respondents accepted the content of the principles and guidance although most also made minor drafting suggestions to improve or expand on the wording. There was, however, a clear message that the focus should now shift from updating the principles to implementation and development of best practice. One respondent referred to the danger of over-engineering the principles and losing sight of the measures that would help improve investment decision-making.

2.7 There was also a range of views on whether the need to communicate with stakeholders should be included in principle 6 (Transparency & Reporting). Some respondents supported this, recognising the benefits to members of transparency and debate, and the spur it provides to self-assessment against the principles. Others were nervous about recognising any disclosure obligation, even on a voluntary ‘comply-or-explain’ basis, beyond that owed to scheme members, or were concerned at the elasticity of any definition of stakeholders.

RESPONSE TO THE INVESTMENT GOVERNANCE GROUP

2.8 A majority of respondents supported the establishment of an Investment Governance Group (IGG) to implement the revised framework. The purpose of the IGG – to improve the governance of investment decision-making by owning the principles and encouraging their application; promoting best practice; and supporting the identification and development of trustee tools – was supported, as were the proposed terms of reference. A strong theme was that the Government should move on quickly

from consideration of the principles to establishing the IGG with a mandate to tackle the issues identified in the proposals and endorsed in the consultation.

2.9 The majority of respondents agreed that the primary role of the IGG should be to enable industry ownership of the principles and associated processes. A small minority however, said that it should be a vehicle for the Government to impose obligations on trustees. Respondents generally agreed that ownership of the principles, by trustees specifically and the pensions community more generally, would encourage the advocacy and promotion of the principles necessary to build support for their adoption and for disclosure against them.

2.10 Some suggested that the role of the IGG seemed insufficiently radical or visionary, or that it was focussed on too narrow a view of investment decision-making to encompass recent developments such as liability driven investment, use of derivatives or buy ins/outs. One respondent was concerned that the IGG might focus on monitoring at the expense of providing practical guidance.

2.11 Respondents agreed that the group's composition should reflect its role in supporting trustee decision-making. There was a welcome desire to be involved, coupled with a wide diversity of views on who should be represented on the IGG.

2.12 A significant minority of respondents felt that a group chaired by The Pensions Regulator (TPR), with Her Majesty's Treasury (HMT) and Department for Work & Pensions (DWP) representation was inconsistent with industry ownership. A number of respondents asked how that IGG would interact with the trustee community and ensure an adequate information flow to them.

RESPONSE TO ISSUES TO BE TACKLED BY THE INVESTMENT GOVERNANCE GROUP

2.13 Respondents' views showed a degree of consensus on the key issues for the IGG to take forward. Many said that there is a pressing need to update the defined contribution (DC) principles, that small schemes should be helped in their application of the principles, while those representing local government schemes said they wanted to adapt the updated principles for their scheme use, and to participate in the IGG.

Location and content of reporting by trustees

2.14 Respondents expressed a range of views on whether the IGG should provide guidance on the location and content of reporting by trustees on their application of the principles. While many felt this would be beneficial to trustees, others expressed concern that this could become prescriptive and would not be a good use of the IGG's resources. Finally some respondents suggested that sample reporting could be helpful, particularly for smaller schemes less able to draw on expert advice.

Defined contribution schemes

2.15 Respondents endorsed the need for trustees of DC schemes to apply the Myners principles and agreed that the IGG should update the DC principles. A number of respondents made the point that the growth in size and importance of DC provision required a stronger emphasis on the DC principles in their own right. In particular, they should not be seen as an extension of the defined benefit (DB) principles and in updating them the focus needed to be the particular characteristics of the DC model, such as trustee selection of the default fund, the range of fund choices offered to members, communication with members on risk/return decisions, and recognition of the difference between trust-based and contract-based DC schemes.

Small schemes 2.16 Respondents acknowledged small schemes as being very different from larger schemes and noted markedly different levels of application of the Myners principles, with smaller schemes sometimes lacking the resources to apply the principles effectively. However, a majority of respondents took the view that the members of smaller trust-based schemes would benefit from application of the Myners principles by their trustees, and that trustees would benefit from more focused help in applying the principles. Many respondents pointed out that efforts should be made to avoid imposing excessive burdens on small schemes.

2.17 There were varying views as to how to implement for small schemes. Some respondents suggested that the updated DB principles were sufficiently flexible to apply to the full range of trust-based schemes and that there was more immediate value in providing guidance on application. Others argued that tailoring a set of principles for small schemes would be beneficial in helping them focus on the most relevant aspects of the principles.

Local Government Pension Scheme 2.18 There was broad support for the proposition that Local Government Pension Scheme (LGPS) would benefit from continuing to apply updated Myners principles, with appropriate adjustment to reflect the specific requirements of the LGPS, and that LGPS stakeholders should be involved in the IGG process.

2.19 However, some respondents suggested that the LGPS might be at risk without an independent process for adapting the Myners principles to LGPS needs. Another concern was that LGPS representation on the IGG risked diverting the focus of the principles from the needs of private sector occupational schemes.

3

THE GOVERNMENT'S RESPONSE TO ISSUES RAISED IN THE CONSULTATION

3.1 The Government has considered the issues raised in responses to the consultation carefully. The responses have played a valuable role in informing the Government's view on how to proceed with updating the Myners principles as well as how to proceed with the IGG. This chapter sets out the Government's response to the issues raised by respondents.

THE PROPOSED APPROACH

3.2 As a result of the consultation, the Government intends to set up a new industry-led framework for investment decision-making, based on revised Myners principles and owned by an IGG on the terms proposed in the consultation. The new framework is not intended to change the role or function of the Myners principles. However, it will change how the principles are used and updated by striking a new balance between higher-level, more flexible, principles and greater industry-reinforced emphasis on the quality of 'comply or explain' disclosures. The Government believes this is the right balance, as it puts the onus on trustees to report on their own practices so that the principles can be challenged and improved through public debate.

3.3 There are a number of elements to the new framework:

- **A smaller number of more flexible principles ...** A smaller number of higher-level principles will provide more flexibility for different types of schemes in terms of their size, financial position and strategy to explain their investment decision-making approach to stakeholders. Adopting higher-level principles also recognises that there is no 'one size fits all' approach to ensuring better standards of investment decision-making and governance. A focus of the consolidated principles will be continuous improvement in the governance of institutional investment.
- **... linked to a body of higher quality, more selective and more accessible guidance and trustee tools ...** Comprehensive best practice guidance and better-integrated tools for implementing the updated principles will ensure a thorough consideration of the issues relevant to investment decision-making. A clearer framework for guidance will be a better place for addressing important technical issues previously detailed in the main body of the Myners principles (e.g., transaction costs). It will also provide an opportunity to develop a comprehensive suite of authoritative best practice trustee tools from the broad range of guidance that has developed on the back of the Myners principles and regulatory activities. If developed co-operatively, the supporting tools have the potential to become the authoritative source of advice on investment decision-making for trustees.
- **... coupled with greater industry ownership of the principles, guidance and trustee tools ...** Decisions on the nature, scope and development of the principles, best practice guidance and trustee tools will be the responsibility of the joint Government-industry IGG. The IGG will reflect a broad range of industry views and be chaired by TPR and sponsored by HMT and DWP. The IGG will formally own the updated principles, monitor their effectiveness and the quality of reporting against them, and make recommendations for improvements to investment decision-making and governance. The IGG

will need to ensure the relevance of the updated principles, providing a reliable basis for further development over time, for example, by reviewing the operation of the updated principles.

- **... and a more robust approach to disclosure and industry debate, within a voluntary 'comply or explain' approach.** The NAPF recommended¹ that trustees ensure that reporting against best practice supports continuing improvement of governance standards. While scheme members are the major target audience for trustees' reporting, members' interests are also served by good quality public debate. The Government believes it is vital that a flexible 'comply or explain' model is supported by high quality disclosure and thoughtful debate, which reinforces the development and dissemination of best practice, encourages self-assessment against the principles, and improves accountability to members. It is for trustees to decide how they respond to this challenge.

THE WORDING OF THE PRINCIPLES AND BEST PRACTICE GUIDANCE

3.4 The Government has made a small number of changes to the principles in response to consultation, where there was a strong consensus among respondents or the amendment was unambiguously necessary. The Government has avoided taking on board suggested changes, which while helpful in intent, would explain principles or best practice guidance in more detail, without necessarily adding to their clarity or breadth. The revised principles, best practice guidance and trustee tools are set out in full in Annex A.

3.5 In the best practice guidance for principle 1, the Government is changing the wording to "It is good practice to have an investment sub-committee to provide the appropriate focus and skills on investment decision-making". This reflects the fact that there is a broader range of investment structures or methods (e.g., due diligence) by which trust boards can achieve the required focus and skills on investment decision-making.

3.6 In the best practice guidance for principle 2, the Government has deleted the reference to "member" expectations. Member expectations are relevant for DC schemes in this context. The Government has also changed the reference to "transaction costs" to "investment management costs", the broader term incorporating transaction costs and reflecting the full intent of the guidance.

3.7 In principle 4, the Government is reverting to the NAPF's suggested wording with regard to the measurement of the performance of a scheme's investment managers and advisers, as there was a strong view that this more clearly expressed the relevant point. The Government has also modified the reference in the best practice guidance which refers to selection of external advisers on the basis of past performance and price, to make clear that all relevant factors should be taken into consideration, not simply performance and price.

¹ *Myners principles for institutional investment decision-making: review of progress*, HM Treasury, December 2004, principle 6

THE INVESTMENT GOVERNANCE GROUP

3.8 The IGG will be an important forum for continued development of investment decision-making and governance. Consequently its composition and operation are critical to it achieving its intended purpose, and to establish industry ownership of the principles and process. The IGG is not intended to be a Government-run consultative committee.

3.9 The IGG will thus have strong representation from experienced figures involved in the governance of investment decision-making on behalf of scheme members, and in particular from trustees. The Government acknowledges that a wide range of experts and professionals who support trustee decision-making, such as investment managers and investment advisers, must be fully included in the process. We believe that the most effective way of ensuring this wider representation is through the operation of the specialist sub-groups, which will be set up by the IGG to manage specific projects.

3.10 The Government believes that representation on the IGG by HMT and DWP on an ex-officio basis is consistent with its interest in the governance of investment decision-making and their sponsorship will enhance the IGG's authority. Equally, the composition and operation of the IGG will demonstrate that it is capable of industry ownership of the principles and process, and is not simply a Government-run consultative committee.

3.11 The IGG will determine how it will interact with trustees. Initially it is proposed that TPR could maintain a central website with links to the principles, best practice guidance and trustee tools. As TPR may participate in the development of any new guidance from the IGG, it sees it as having equivalent effect to its existing guidance. Furthermore, group members will be expected to use their links to organisations representing or linked to trustees to support the group's purposes. Members' profile in the trustee community will assist with dissemination and adoption of the IGG's output.

3.12 In terms of monitoring and funding the Government believes the effectiveness of the IGG will be enhanced by the transparency of its activities and outputs. The Government envisages that it will establish an annual work programme, and report to its sponsors (HMT and DWP) and more widely on an annual basis. The Government also proposes that the sponsors are responsible for reviewing its success in meeting the objectives in its terms of reference. Consequently, a short high-level review will be undertaken by the sponsors after the first year of operation with a formal review no later than three years after establishment.

3.13 The costs of the group will be borne by the participants in the process and members of the group and sub-groups will not be paid. Initial secretariat and web hosting services will be provided.

3.14 Further information, including the IGG's (unchanged) terms of reference, is laid out in Annex B.

ISSUES TO BE TACKLED BY THE INVESTMENT GOVERNANCE GROUP

3.15 Since the original Myners principles were published there have been significant changes to the way in which pensions are provided in the UK. Therefore, the IGG will look into various areas identified and endorsed in the consultation and decide how these should be taken forward.

Location and content of reporting by trustees **3.16** The Government believes that brief and practical guidance on the location and content of reporting by trustees would be helpful, with the understanding that it does not impinge on trustees' flexibility to inform members and participate in best practice debate in the manner they think most effective.

Defined contribution schemes **3.17** The Government envisages the updating of the DC principles will be taken forward by the IGG as part of its immediate workplan. This work will be undertaken in parallel with TPR's work to address DC risks and governance priorities in a voluntary framework (in particular the work following from TPR's April 2007 publication on the governance of work-based pension schemes). TPR will also continue to work with pension schemes, trustees and providers to improve the governance of work-based DC schemes.

Small schemes **3.18** The Government agrees that small schemes face different issues when compared to larger schemes. Therefore the Government's view is that smaller schemes would benefit from a tailored set of principles with associated guidance as the IGG deems appropriate. The Government proposes that this issue is taken forward by the IGG as part of its immediate work plan.

Local Government Pension Scheme **3.19** The Government believes that the process for adaptation can be structured to ensure recognition of LGPS needs. Accordingly, the Government will nominate a representative from the LGPS to represent local government schemes on the IGG. The Government anticipates that an LGPS sub-group, with the involvement of the Department for Communities and Local Government and the Chartered Institute of Public Finance and Accountancy, will be formed to update the guidance adapting the principles for LGPS usage. The Government has also concluded that the IGG should in due course consider whether there is a case for the adaptation of the principles to the needs of other trust-based public sector schemes.

3.20 Involvement in the IGG by LGPS should benefit all trust-based schemes by facilitating transmission of best practice both ways. The Government does not believe that LGPS involvement will lead to excessive dominance by a local authority perspective.

4

CONCLUSIONS

4.1 The responses to the consultation have been valuable in forming the Government's thinking on the issue of updating the Myners principles. As set out in this paper the Government has reached or affirmed a number of decisions, including the following:

- A smaller number of higher-level principles will be used to provide more flexibility for different types of schemes in terms of their size, financial position and strategy to explain their investment decision-making approach to stakeholders.
- These principles will be linked to a body of higher quality, more selective and accessible guidance and trustee tools.
- There will be greater industry ownership of the principles, guidance and trustee tools. Consequently decisions on the nature, scope and development of the principles, best practice guidance and trustee tools will be the responsibility of the joint Government-industry Investment Governance Group.
- There will be a more robust approach to disclosure and industry debate, within a voluntary 'comply or explain' approach.

4.2 The Government believes these provide the right balance. It puts the onus on trustees to report on their own practices and gives greater industry ownership of the area. Collectively this should mean that the principles can be challenged and improved through robust public debate.

A

TABLES OF UPDATED PRINCIPLES, BEST PRACTICE GUIDANCE AND TOOLS

Principle	Best practice guidance	Trustee tools
<p>The high level principles will be the accepted code of best practice throughout the industry in investment decision-making and governance. It is expected that trust boards will report against these on a voluntary 'comply or explain' basis.</p>	<p>Best practice guidance is intended to help trustees to apply the principles effectively. Trustees are not expected to implement every element of best practice. Rather trustees may use best practice examples where appropriate to help demonstrate whether compliance has been achieved.</p>	<p>Tools provide practical help and support to trustees and their advisers to enable them to apply the principles and ensure that standards of investment decision-making and governance continue to rise.</p>
<p>Principle 1: Effective decision-making</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The board has appropriate skills for, and is run in a way that facilitates, effective decision-making. There are sufficient internal resources and access to external resources for trustees and Boards to make effective decisions. It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making. There is an investment business plan and progress is regularly evaluated. Consider remuneration of trustees. Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues). 	<ul style="list-style-type: none"> TPR's Trustee Toolkit and other training material. Publication of best practice guidance / templates e.g. in relation to business plans, scheme structures etc. TPR guidance on conflicts of interest. Publication of industry-average lay-trustee remuneration.
<p>Principle 2: Clear objectives</p> <ul style="list-style-type: none"> 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 and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers. 	<ul style="list-style-type: none"> Benchmarks and objectives are in place for the funding and investment of the scheme. Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation. Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates. Consider the strength of the sponsor covenant. 	<ul style="list-style-type: none"> TPR guide on covenant assessment. TPR Trustee Toolkit. IMA Pension Fund Disclosure Code. Marathon Club Guidance for Long-Term Investing.

<p>Principle 3: Risk and liabilities</p> <ul style="list-style-type: none"> • In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. • These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk. 	<ul style="list-style-type: none"> • Trustees have a clear policy on willingness to accept underperformance due to market conditions. • Trustees take into account the risks associated with their liabilities valuation and management. • Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. • Trustees have a legal requirement to establish and operate internal controls. • Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay. 	<ul style="list-style-type: none"> • TPR guide on working with the employer. • Code of practice No 3 on Funding Defined Benefits. • Code of practice No 9 on Internal Controls. • TPR guidance on longevity.
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<p>Principle 4: Performance assessment</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> There is a formal policy and process for assessing individual performance of trustees and managers. Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings). The chairman addresses the results of the performance evaluation. State how performance evaluations have been conducted. When selecting external advisers take into account relevant factors, including past performance and price. 	<ul style="list-style-type: none"> Trustee ‘Key Performance Indicators’. TPR’s Trustee Toolkit. Assessing consultants performance ‘toolkit’ e.g. model balanced scorecard etc.
<p>Principle 5: Responsible ownership</p> <ul style="list-style-type: none"> Trustees should adopt, or ensure 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. 	<ul style="list-style-type: none"> Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles. Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers. Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company. Trustees ensure that investment consultants adopt the ISC’s Statement of Practice relating to consultants. 	<ul style="list-style-type: none"> Statement of Investment Principles. ISC Statement of Principles. Supporting statement for investment consultants on the ISC principles.

<p>Principle 6: Transparency and reporting</p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Reporting ensures that: <ul style="list-style-type: none"> ○ the scheme operates transparently and enhances accountability to scheme members; and ○ best practice provides a basis for the continuing improvement of governance standards. 	<ul style="list-style-type: none"> • Statement of Investment Principles including statement of funding principle. • Websites / helplines (for larger schemes). • Annual report and accounts. • Best practice on quality disclosure and reporting.
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THE INVESTMENT GOVERNANCE GROUP

B.1 The overarching aims of the IGG will be to implement a new industry-led framework for the application of the Myners principles, to improve the way pension schemes are governed and encourage the spread of best practice in investment decision-making and governance.

B.2 The IGG will be an industry body able to ‘own’ the principles, representing the current pensions landscape as well as looking to future developments. Therefore, members have been drawn from a wide range of representative, professional, and expert bodies with an interest and involvement in the governance of investment-related activities. The IGG is expected to operate as a commissioning and review body, establishing sub-groups to undertake projects such as the drafting of specific guidance.

B.3 No fixed term has been set for the life of the IGG. This will depend on the continuing relevance of its objectives and its success in meeting them, as seen, for example, in increased levels of understanding and adoption of the principles or recognition of IGG output as a principal source of best practice guidance. A short high-level review will be undertaken by the sponsors after the first year of operation to ensure that the IGG is operating as intended, with a formal review no later than three years after establishment.

B.4 The terms of reference for the Investment Governance Group are as follows:

- Promote best practice in investment-related governance by occupational pension schemes including defined benefit, defined contribution schemes, small schemes and local government pension schemes.
- Encourage and influence improvements in standards of investment-related governance and sharing of good industry practice.
- Take ownership of the principles for institutional investment decision-making, monitor their application and reporting by trustees and recommend improvements as required.
- Identify and direct users to existing best practice guidance and trustee tools that support the principles and co-ordinate action by group members to fill any gaps, including the provision of further tools to assist trustees within a voluntary ‘comply or explain’ environment.
- From time to time, advise the group’s sponsors on the state of investment-related governance.

C

RESPONDENTS TO THE CONSULTATION

Association of British Insurers	National Grid
Association of Consulting Actuaries	National Grid UK Pension Scheme Trustee Ltd
Association of Investment Companies	Nick Foster
Association of Pension Lawyers	Nottinghamshire County Council
Avon Pension Fund	Occupational Pensions Alliance
BAE Systems Pensions Funds Investment Management Ltd	P-Solve Asset Solutions
BP Pension Trustees Ltd	Paul Cox
Cardano Risk Management BV	Peter Scales
Cemly Foulkes	PricewaterhouseCoopers LLP
CFA Institute	Railways Pensions Trustee Company Limited
Chartered Institute of Public Finance and Accountancy	Russell Investments
Deloitte	Sacker & Partners LLP
Department for Communities and Local Government	SAUL Trustee Company
Dr. R. K. Hinkley	SEI Investments (Europe) Limited
Electricity Supply Pension Scheme	South Yorkshire Passenger Transport Authority
FairPensions	The Independent Pension Trustee Group
Freshfields Bruckhaus Deringer	The Institute of Chartered Accountants in England and Wales
GMB	The Pensions Management Institute
Hewitt Associates Ltd	The Pensions Trust
Hymans Robertson LLP	The Society of Pension Consultants
Imperial Commercials	Trade Union Congress
Investment Management Association	UNISON
Lane Clark & Peacock	VINCI PLC
Local Authority Pension Fund Forum	Watson Wyatt Investment Consulting
Marathon Club	West Yorkshire Pension Fund
Mercer Ltd	Wilberforce Chambers
Merseyside Pension Fund	
National Association of Pension Funds	

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