report

meeting	**PENSIONS INVESTMENT SUB-COMMITTEE**	
date	**14 DECEMBER 2007**	agenda item number

REPORT OF THE STRATEGIC DIRECTOR OF RESOURCES

MYNERS PRINCIPLES AND NAPF REVIEW 2007

Purpose of the Report

1. To inform Members of the results of the National Association of Pension Funds (NAPF) review of the Myners Principles on Institutional Investment in the UK.

Information and Advice

2. In March 2000, H M Treasury commissioned Paul Myners to conduct a review of institutional investment in the UK. His report was published in 2001. It recommended that in the interests of good governance that pension fund trustees should voluntarily adopt a series of ten Principles. In December 2004, the Government reviewed the progress made by Pension Funds in implementing the Myners Principles and proposed that some of the Principles should be revised to strengthen and amplify them in certain areas. A consultation was held on these proposals and as a result NAPF agreed to undertake a further progress review in 2007. NAPF produced a Discussion Paper, entitled "Institutional Investment in the UK Six Years On" and views were provided by a number of respondents, including the Nottinghamshire Pension Fund. NAPF has now completed its review and published its report and recommendations. These were forwarded to H M Treasury in November 2007.

3. NAPF has concluded that standards of governance in UK pension schemes have risen considerably since the Myners Report was published in 2001 and the areas of weakness identified by the Treasury's own review in 2004 have been largely addressed. However, progress has not been even and NAPF has made a number of recommendations to address specific issues.

4. NAPF's recommendations to the Treasury, summarised below provide a framework for developing the Principles and NAPF has proposed working with the Treasury, the Pensions Regulator and others in the industry to develop the Principles for the current pensions environment. The recommendations are as follows:-

1. **Voluntarism should remain at the heart of the Principles, reinforced by a strengthened 'comply or explain' approach to reporting**. The current voluntary regime is working well and has secured a high level of compliance. There is scope to adopt a strengthened 'comply or explain' framework in relation to trustees' disclosure of compliance with the Principles.

2. **The current Principles should be replaced with fewer, higher-level, Principles for today's pensions environment.** The current Principles should be slimmed down to six high-level Principles that are relevant to the challenges trustees face today.

3. **High level Principles should be supplemented by supporting guidance and toolkits to give trustees practical support.** The slimmed down Principles should be supported by practical guidance for schemes and trustees. The industry has a leading role in producing and facilitating this guidance, and ensuring its consistency with the overarching Principles.

4. **New approaches are needed to help smaller schemes comply with the Principles.** There should be further work and consultation on how small schemes can best implement the Principles, including the options available to introduce scale economies to small schemes.

5. **The Pensions Regulator (TPR) should work with pension schemes, trustees and providers to take forward its proposals in relation to the governance of Defined Contribution (DC) schemes.** The rise of DC schemes presents new governance challenges which TPR should address. Principles for DC schemes should also be refreshed to ensure they are relevant to today's environment.

6. **The Principles should be co-owned by The Pensions Regulator and the Pensions Industry.** Ownership of the Principles should pass from H M Treasury. To ensure both effective industry ownership and a joined-up regulatory framework, the Principles should be jointly owned by TPR and the pensions industry.

7. **Trustees should periodically undertake formal assessments of their own performance and that of the Board.** Trustees of schemes with assets in excess of £250 million should undertake periodic reviews of their own performance and report on it to members in the annual report and accounts.

8. **A further, targeted review should take place in three years.** The review should focus specifically on those areas of under-compliance identified in this review as well as the continuing relevance of the Principles.

5. NAPF also produced a 2007 Principles Matrix which links its proposed 6 Principles to supporting guidance and suggested practical help for trustees. The Matrix is attached to this report.

6. At this stage, it is not clear when H M Treasury will respond to NAPF's recommendations but when this is published the Sub Committee will be updated with the response.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder, human rights and those using the relevant service. Where such implications are material, they have been described in the text of the report.

Recommendations

8. The Sub Committee notes the findings of the NAPF Review of the Myners Principles and comment accordingly.

ARTHUR DEAKIN
STRATEGIC DIRECTOR OF RESOURCES

Background Papers Available for Inspection

NAPF: Institutional Investment in the UK: Six Years On.