

**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**



PLANNING FOR CHANGE: WHERE GOVERNANCE GOES NEXT

Andy Cork
Senior Associate
Allen & Overy

Headline sponsor

ALLEN & OVERY



We take the view that it is unacceptable that some members are at greater risk of poor outcomes in later life purely because they happen to have been [in]...a poorly run pension scheme...

...poor governance and administration is not a victimless phenomenon – it's bad for members and it's bad for employers too.

The Pensions Regulator, 21st Century Trusteeship



**Governance
as a trustee
duty**

**Current
governance
issues**

**What's
coming
next?**

**A new
governance
system**



**Governance
as a trustee
duty**

**Current
governance
issues**

**What's
coming
next?**

**A new
governance
system**

THERE IS SOME EVIDENCE OF A GOVERNANCE PREMIUM BUT...



O'Barr
Focus on “responsibility deflection and blame management rather than on good governance and creating value for fund stakeholders”



Ambachtsheer

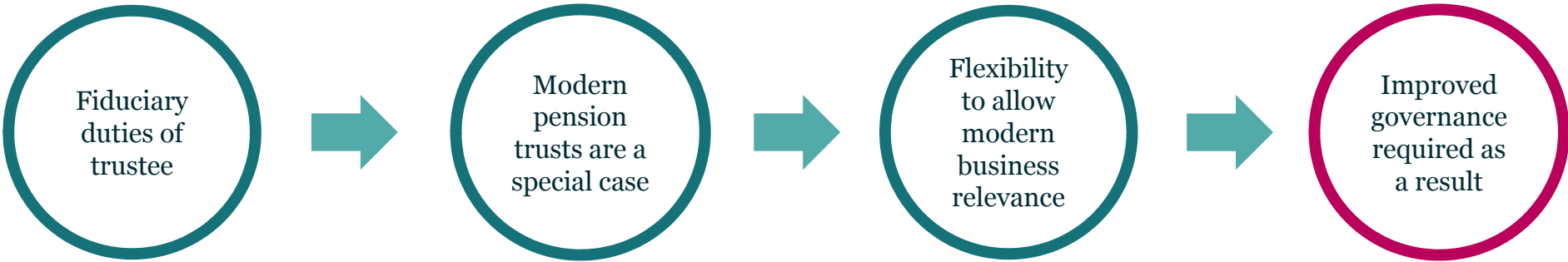
Good governance standards add 1-2% per annum in investment performance



Clark and Urwin

Schemes that demonstrate best practice achieve 2% per annum above their benchmarks

GOOD GOVERNANCE SHOULD BE SEEN AS CENTRAL TO THE TRUSTEE DUTY TO EXERCISE REASONABLE SKILL AND CARE





Governance
as a trustee
duty

**Current
governance
issues**

What's
coming
next?

A new
governance
system

THE REGULATOR'S 21ST CENTURY TRUSTEESHIP CAMPAIGN



TPR Governance Papers 1 - 3

More to follow?

TPR PAPER 1 SEEMED VERY NARROW

- ▶ Do you regularly discuss and review the governance of your scheme?
- ▶ Do you pay your levy on time?
- ▶ Do you complete your scheme return on time and accurately?
- ▶ Do you update scheme information on Exchange as soon as possible when things change?
- ▶ Do you respond to Regulator requests for information about your scheme?
- ▶ If your scheme provides money purchase benefits, do you produce a chair's statement ?

TPR PAPER 2: CLEAR ROLES AND RESPONSIBILITIES

- ▶ Are decisions taken efficiently by the right people?
- ▶ Does the board focus on the most important strategic matters?
- ▶ Where there is delegation, are there clear parameters and reporting processes?



- Clear delegation allows swift decisions
- Cttee reports allow integrated risk management



- Individual issues without strategic overlay
- Agenda leaves no time for strategy discussion

TPR PAPER 3: PURPOSE AND STRATEGY

- ▶ Do you have a clear strategy that all trustees can explain?
- ▶ Do you have a working business plan?
- ▶ Does the business plan cover your goals, strategy and monitoring framework?



- Clear 12 month forward-looking business plan
- Objectives are discussed with sponsor



- Issues tabled on ad hoc basis
- Urgent issues dominate agenda



Governance
as a trustee
duty

Current
governance
issues

**What's
coming
next?**

A new
governance
system

BOARD COMPETENCE WILL BE A CENTRAL FOCUS



-  – Honest assessment of skills
- Appropriate selection methods

-  – No succession planning in place
- No overall view of board skills coverage

RISK MANAGEMENT THROUGH PROCESSES

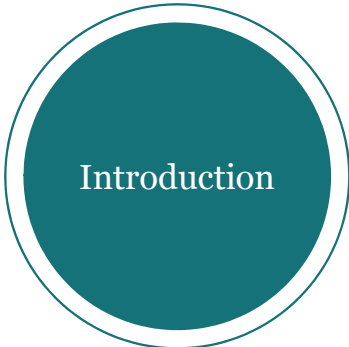


- Trustees test themselves
- Clear system of values



- Paper processes not followed
- Lack of communication between trustees

DIVERSITY AND REMUNERATION ARE RUNNING THEMES



IORP II HAS NEW GOVERNANCE STANDARDS

- ▶ “Higher governance standards are needed to protect scheme members ...”
 - ▶ Proportionate, effective governance “for sound and prudent management of activities”
 - ▶ Risk assessment of long- and short-term risks
 - ▶ “Fit and proper” trustees
 - ▶ A “sound remuneration policy” for key individuals running the pension scheme



- Timing is similar to Brexit
- Watching brief at this stage



Governance
as a trustee
duty

Current
governance
issues

What's
coming
next?

**A new
governance
system**

THERE ARE A NUMBER OF MODELS FOR A WIDER REGIME

**UK Corporate
Governance Code**

**Ofsted-style policy
inspection**

**Internal survey and
evaluation**

**PPF levy reduction
for good governance**

THE CORPORATE CODE – MAIN PRINCIPLE A1

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company

The board should set the company's strategic aims, ensure that the necessary... resources are in place for the company to meet its objectives

The board should meet sufficiently regularly to discharge its duties effectively

THE CORPORATE CODE – MAIN PRINCIPLE B1

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge

The board should be of sufficient size that the changes to the board's composition can be managed without undue disruption

THE CORPORATE CODE – MAIN PRINCIPLE B6

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors

Evaluation should consider the balance of skills, experience, independence and diversity

Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years

Questions?

These are presentation slides only. The information within these slides does not constitute definitive advice and should not be used as the basis for giving definitive advice without checking the primary sources

Allen & Overy means Allen & Overy LLP and/or its affiliated undertakings. The term partner is used to refer to a member of Allen & Overy LLP or an employee or consultant with equivalent standing and qualifications or an individual with equivalent status in one of Allen & Overy LLP's affiliated undertakings

**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**

TRUSTEE CONFERENCE 2017

Clear decisions; transparent outcomes



Headline sponsor

ALLEN & OVERY

 **#PLSA**