

**NAPF SUBMISSION TO THE HM TREASURY CONSULTATION ON THE NAPF MYNERS
REVIEW**

SECTION 1 – INTRODUCTION

1. The National Association of Pension Funds (NAPF) welcomes the opportunity to respond to the consultation document *Myners Review: a consultation* issued by HM Treasury on 31 March 2008.
2. Following the invitation from HM Treasury to undertake the Myners review, last year the NAPF committed considerable time and resource to the Myners review project culminating in the publication of *Institutional investment in the UK: six years on report and recommendations* in November 2007.
3. This paper sets out our overall views on HM Treasury's response to the NAPF's 2007 recommendations and includes responses to the eight specific questions posed by HM Treasury in the consultation document.

About the NAPF

4. The NAPF is the leading voice of workplace pensions in the UK. Our 1300 members provide pensions on behalf of more than 15 million people and have combined assets of around £800 billion.

SECTION 2 – NAPF GENERAL COMMENTS

5. The HM Treasury consultation document recognises the progress made by trustees in UK pension scheme governance over the period since the Myners Principles were first published in 2001. In addition HM Treasury fully endorses the NAPF's 2007 review proposals and proposes to adopt the NAPF's recommended approach subject to some minor changes. We welcome the Government's endorsement of our findings and recommendations.
6. The NAPF is keen, however, that having thoroughly reviewed the application of the Principles last year via extensive consultation with relevant stakeholders and trustees, energies should now be directed at addressing the areas for further activity identified in the NAPF report and recommendations.
7. The NAPF has identified the following areas of work for immediate focus :
 - assist trustees in the task of self assessment;

- assist with the extension of compliance with the revised Principles to contract-based DC schemes;
- develop new approaches to assist small schemes comply with the revised Principles where appropriate; and
- quickly agree the Terms of Reference and composition of the Investment Governance Group (IGG) that will co-own the revised Principles, so that rapid progress can be made in continuing to improve governance on investment matters.

Assist the process of trustee self assessment

8. The results of a survey of UK trustees undertaken by the NAPF last year confirmed that only 27% of UK pension schemes surveyed have a formal process for trustee self assessment in place. The NAPF intends to evaluate the stock of existing trustee self-assessment tools and develop aids for trustees taking account of existing industry guidance and best practice.

Contract-based DC schemes

9. Our 2007 report recognised that the rise in UK DC provision presents new governance challenges and recommended that The Pensions Regulator (TPR) should work closely with pension schemes, trustees and DC product providers to develop its original proposals into an action plan designed to help fiduciaries better meet the governance requirements of DC schemes. This is work that could helpfully be developed by the IGG.

Small pension schemes

10. We believe a new approach is required to assist small schemes to acquire higher standards of scheme governance. This approach must recognise the resource constraints faced by small schemes and should not create any further unnecessary compliance burden. The NAPF recommends a consultation among all interested parties to consider both the appropriateness of the Principles to small schemes and the best mechanisms to encourage the application of higher standards of governance by small schemes. The NAPF will continue to develop its own thinking and proposals in this area over the coming months.

Investment Governance Group

11. The NAPF believes that the IGG should become the main vehicle for the development and promotion of future best practice in UK scheme governance related to investment decision making. The IGG must be genuinely collaborative seeking to use expertise from across the pensions community (including industry and representative bodies, government and regulatory bodies) to effect change. It must not become a backdoor route for further regulation from TPR. A sensible starting point for the IGG would be a gap analysis of the tools currently available to trustees on investment decision-making and governance matters. This could usefully form the basis of a work programme for the IGG.

12. Our proposals on the role and the composition of the group are set out in paragraphs 20-21 below.
13. As it is likely to be some months before the IGG will be fully constituted and ready to meet, the NAPF proposes to engage informally on current key issues with both TPR and HMT in the interim.

SECTION 3 – NAPF COMMENTS TO SPECIFIC QUESTIONS

14. This section provides the NAPF's responses to the specific questions raised chapter by chapter by HMT in the consultation document.

Scope of the updated Principles

Question 1- 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?

15. Yes. We believe that collectively this suite of measures will be an important factor in further raising standards of pension fund governance and investment decision-making for UK pension schemes.

Updated Principles and best practice guidance

Q2 – Do you agree with:

- ***The proposed updated principles (as set out in full in Annex C)?***

16. The NAPF is generally satisfied with the HMT amendments to the NAPF's proposals for a revised set of Principles.
17. However, we do have concerns regarding HMT amendments to revised Principle six: Transparency and reporting which seek to extend compliance reporting beyond scheme members (the limit envisaged by the NAPF). The NAPF believes that trustees as fiduciaries of a private trust are accountable purely to plan members and beneficiaries and, unless they choose voluntarily to do so, trustees should not have to report to a wider range of stakeholders a task which might also impose a further administrative burden for some trustee boards.

- ***The proposed best practice supporting guidance (as set out in full in Annex C)?***

17. Yes. The best practice guidance is useful for the majority of users but may not be uniformly applicable to all trustees (e.g. regarding transaction costs). We believe the IGG will need to consider how such guidance should apply across a range of different scheme types – DB, DC (both large and small), local authority schemes and boards of trustees.

Improving Disclosure

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

18. Yes. A standardised but non prescriptive approach providing guidance on relevant and meaningful content of reporting could provide a valuable framework within which all UK trustees/fiduciaries can adopt a common method for the reporting of their compliance with 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?

19. The key to reporting the application of the Principles should be the usefulness to the end user or audience (e.g. scheme members) reading the trustees report. In our view this can be achieved formally via the trustees Annual Report & Accounts and informally through the regular member communications issued by trustees (e.g. member newsletter or ‘popular’ Report & Accounts). In addition trustees could also report compliance with the Principles through a dedicated pension scheme website where appropriate. We are aware, however, that the Department for Work and Pensions is currently undertaking a review of disclosure requirements including the annual report and accounts and proposals relating to location of reporting by trustees on the Principles will need to take account of this review.

Ownership and future development of the Principles

Q5 – Should the proposed Investment Governance Group own the updated principles (on the basis set out in Annex B)? If yes, are the proposed Terms of Reference for the Investment Governance Group (in Annex B) the right ones?

20. The NAPF agrees that the IGG should own the updated Principles on the terms set out in Annex B. It is, however, particularly important that the IGG is fully representative of all aspects of the UK pensions industry. The IGG should therefore comprise representatives from large and small schemes as well as DB, DC and local government arrangements.

21. The NAPF does not have any particular areas of concern with the Terms of Reference for the IGG produced by HMT and set out in Annex B to the consultation document. However, the NAPF believes that the Terms of Reference could be strengthened to have a greater focus on the key activities and outputs of the IGG in assisting pension scheme trustees to meet their objectives of better governance and investment decision-making. Lastly the NAPF would emphasise that the IGG must not become a backdoor route for further regulation from TPR.

Special Issues

Q6 – Should the DC principles be updated by the Investment Governance Group to reflect the changes to DB principles and those market changes affecting DC provision?

22. Yes. We believe the DC Principles need to be refreshed to take account of the developments in DC provision and to ensure that they remain Principles rather than prescriptive based.

23. Given the increased importance of DC pension provision in the UK i.e. more contributing members are now in defined contribution (DC) rather than defined benefit (DB) plans the future actions of trustees and other fiduciaries in contract based arrangements (where appropriate) are likely to come under greater scrutiny. The revised DC Principles need to be 'fit for purpose' to assist plan fiduciaries going forward.

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

24. Trustees of small schemes are likely to continue to aim to simplify investment decision making and governance processes because of resource constraints. Consequently, any initiative by the IGG to extend the application of the updated Principles to include small schemes should consider these constraints and work with all interested parties to develop new approaches which can assist small schemes to comply with the Principles where appropriate.

25. We believe that there should be further consultation to consider the appropriateness of the Principles to small schemes, develop mechanisms to assist small schemes improve governance and implement the revised Principles alongside analysis of the various options (e.g. via scheme consolidation) available to introduce scale economies to small schemes. As noted in paragraph 10 above the NAPF has identified the lack of suitable guidance on small scheme governance as a key development area in the UK.

Q8 - Should the proposed updated principles be adopted for LGPS use and LGPS stakeholders be involved in the Investment Governance Group process?

26. The Chartered Institute of Public Finance and Accountancy (CIPFA) have established a Working Group on the application of the Principles to the Local Government Pension Schemes (LGPS) and the findings and views of that group will inform the LGPS response and determine the likely involvement, or not, of LGPS representatives in the IGG.

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