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Myners Consultation Team
HM Treasury
Room 3/20
1 Horseguards Road
London
SW1A 2HQ

23 June 2008

Dear Sirs

UPDATING THE MYNERS PRINCIPLES: A CONSULTATION

The Chartered Institute of Public Finance and Accountancy (CIPFA) is one of the leading professional accountancy bodies in the United Kingdom and the only one which specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA members work (often at the most senior level) in the public service bodies, in the national audit agencies and major accountancy firms. They are respected throughout for their high technical and ethical standards and professional integrity. As such, CIPFA is the leading independent commentator on managing and accounting for public money.

As an integral part of its governance structure, the Institute operates a panel of pensions professionals drawn from senior Local Government Pension Scheme (LGPS) practitioners, auditors, regulators and representative groups (the CIPFA Pensions Panel). Drawing on advice from this group, CIPFA has a significant interest in the proposals to update the Myners principles and was responsible for producing the guidance currently used by LGPS funds in relation to the current principles, as prepared by the Department for Communities and Local Government (CLG), and adapted for use in the LGPS. We are therefore pleased to have the opportunity to comment upon these proposals to update the principles and approach as set out in the consultation paper. They have been copied to Bob Holloway at CLG.

General comments

CIPFA welcomes the NAPF review of the Myners principles. The 2001 principles were a significant step forward in investment-decision making and governance, and have largely been an effective catalyst for change over the last six years. However during this time there have been significant changes in the pensions landscape and it was therefore an appropriate time to undertake a review of the principles to ensure their continued and improved effectiveness.

Overall the Institute is supportive of the direction set out by HM Treasury and offers the following observations on the specific questions set out in the consultation paper.



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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?

Over the last six years, we have seen considerable improvements in scheme governance that have flowed from schemes implementing the 2001 principles. We are therefore hopeful that the updated principles (reduced and simplified), owned by the industry and accompanied by best practice guidance, compliance tools and enhanced compliance reporting, will continue the success of the principles so far in improving investment decision-making and governance.

Q2: Do you agree with:

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

Overall we agree with the proposed principles and suggested best practice. We particularly support the proposals for effective decision-making through the emphasis on improving trustee expertise.

We also have the following comments to offer on the proposed best practice guidance outcomes:

Principle 4 – Performance Assessment - best practice guidance outcomes

We feel that carrying out individual performance assessment of trustees may prove difficult in the Local Government Pension Scheme context, where the trustee role is carried out by elected officials appointed to the pension fund decision-making body as part of the local democratic process. In such circumstances, funds may wish to have the option to carry out a collective assessment of the effectiveness of the decision-making body, and we therefore suggest changing this to “assessing collective and/or individual performance of trustees”.

We also believe that the NAPF’s suggestion (that trustees should state in the scheme’s annual report how the performance evaluation has been undertaken) would improve transparency and would allow scheme stakeholders to examine and challenge the efficacy of the assessment process.

Principle 5 – Responsible Ownership - best practice guidance outcomes

In addition to disclosing responsible ownership policies, schemes might also be invited to demonstrate, through disclosure in their annual reports or some other form of communication with stakeholders, how those policies have been put into practice.



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Annex C – best practice tools

In conjunction with CLG and other stakeholders, CIPFA produces a range of guidance for the Local Government Pension Scheme (LGPS) which we intend to amend/supplement to reflect the changes to the principles, in particular “Principles for Investment Decision-Making in the LGPS” and the “Responsible Investment Self-Assessment Checklist” (developed in conjunction with the Local Authority Pension Fund Forum and the UK Social Investment Forum). It might prove helpful for the local government community if the CIPFA guidance were also referenced in Annex C.

The Institute is also in the process of developing a knowledge, skills and competencies framework for those working in public sector pensions which will particularly address the knowledge and skills requirements of those charged with the trustee role in the local government sector.

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

High level guidance which sets out how schemes might improve the way in which they communicate their compliance with the principles would be welcome. However such guidance should recognise that there is a broad spectrum of pension arrangements in the UK and that there is a role for sectoral specialists to provide more detailed application guidance for their constituents to work alongside an industry-wide guidance. In particular CIPFA has a recognised role in doing this for the LGPS community which operates within a significantly different statutory framework from trust-based funds.

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?

High level guidance setting out the reporting options for funds would be welcome but again this should recognise the broad spectrum of pension arrangements in the UK. In the LGPS there are already statutory requirements (set out in The Local Government Pension Scheme (Investment and Management of Funds) Regulations 1998 and The Local Government Pension Scheme (Administration) Regulations 2008) for funds to prepare and publish a wide range of compliance documents including:

- An annual report
- A governance statement
- A governance compliance statement
- A funding strategy statement
- A statement of investment principles
- A pensions administration strategy
- A communications policy statement



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Any further guidance should recognise the existing reporting requirements and seek to augment and improve what is currently in place rather than become another layer of reporting requirements.

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?

The Institute agrees strongly that for the principles to be effective they should be owned by the industry. The formation of an Investment Governance Group seems a reasonable step in this regard. We also agree that the group should contain a broad cross-section of representative interest and CIPFA would be pleased to supply a representative to the Group. We would also support the creation of a sub-group, under a suitably qualified chair, to consider public sector pension scheme matters as an appropriate means of integrating the particular circumstances of public sector pensions governance.

The terms of reference would appear to be consistent with the stated aims of the Group but we suggest that it might be useful to state within the terms of reference the powers of the Group to delegate to sub-groups specific matters or sectors.

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?

In light of the growth of DC arrangements over the last six years and the similar issues faced by those charged with the governance of DC schemes with regard to investment decision-making, it would seem appropriate to use this opportunity to update the DC principles.

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

We agree that the needs of members of small schemes regarding investment efficiency and security are equal to those of larger schemes, and that the Investment Governance Group (IIG) should seek to engage with and assist those schemes in meeting the requirements of the updated principles. Again this might be achieved via a dedicated sub-group operating under the IIG umbrella.

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

CIPFA is pleased that the consultation paper recognises the role played by the Institute in providing guidance to LGPS funds on compliance with the 2001 Myners principles. We work continually with CLG and other stakeholders to find ways in which we can help LGPS funds to improve their investment decision-making and governance. As such, the



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Institute regards it as crucial to our role supporting LGPS practitioners to issue revised guidance to capture any changes to the Myners principles and approach, adapted where appropriate for the particular nuances of the LGPS statutory and governance framework.

As the regulator of the Local Government Pension Scheme, we strongly support the suggestion that CLG be fully involved in the Investment Governance Group. This would help to embed ownership of the principles which will apply to the scheme which it regulates. CLG are active participants in the CIPFA Pensions Panel and its involvement in the Investment Governance Group would ensure that CIPFA is kept informed of developments within the Group, which would in turn ensure that any guidance issued by the Institute remained current.

I hope these comments are a useful contribution to the development of the revised principles and approach. If you would like to discuss further any of the points raised, please do not hesitate to contact CIPFA via the Pensions Panel Secretary, Nigel Keogh, at nigel.keogh@cipfa.org.

A cop of this letter has been sent to Bob Holloway at CLG.

Yours sincerely

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