Association of Consulting Actuaries
Response to ‘Updating the Myners principles: a consultation’

Introduction

This document constitutes the response of the Association of Consulting Actuaries (ACA) to ‘Updating the Myners principles: a consultation’.

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?

We believe that all aspects of the proposed approach can be made to contribute to improving investment decision making and governance. It is desirable to have a strong and supportive framework for decision making given that the allocation of substantial amounts of capital is at stake.

In particular, we note Trustee boards are often comprised of members with no direct investment experience and decisions are therefore heavily influenced by their investment advisers. A robust governance framework is therefore necessary to help guide trustees’ interactions with advisers and inform their decision making processes.

Updated set of principles

In general we do not believe that changes in investment environment will change the relevance of the Principles as a whole although the relative importance of each Principle will vary from time to time. Indeed the basic problems of pension investment and funding remain the same (i.e. how to ensure that the liabilities are met) .However we do believe it is sensible to assess the principles on a regular basis and updated if required. We also believe that that assessing the principals on a regular basis will help to ensure that Trustees remain aware and complainant with the principals when appropriate.

Best practice guidance

We believe that the lack of guidance in the original principles may have contributed to the lacklustre progress made in some areas. We therefore welcome the best practice guidance.

Trustee tools

The trustee tools should be a great help in enabling trustees to engage more effectively with the principles.

Better Quality Reporting

Although better quality reporting could be seen as a separate area from the decision making process we believe that it will actually have a positive impact in this area. A requirement to explain and account for decisions is likely to have an impact on the clarity of the decision making process and the quality of the decisions made.

Question 1 (continued)

Greater industry ownership of the principles

Whilst we welcome the idea of greater industry ownership we do have some concerns over the effectiveness of the proposed Investment Governance Group. In particular, apart from engaging all interested parties, it must also be responsive. How the balance between engagement and decision making is resolved will go a long way in determining the success of this.

Question 2

Do you agree with:

The proposed updated principles (as set out in Annex C)

The proposed best practice supporting guidance (as set out in Annex C)

Effective Decision Taking

This Principle is central to ensuring that effective decision making and good governance practices are enacted. This is of particular importance for pension schemes since the allocation of substantial amounts of capital is determined by Trustee boards and as noted above often the trustees will not be investment professionals and will need to rely on the advice of advisers.

Whilst the ability to put advice to critical assessment is laudable there are some situations in which this cannot be realistically expected in practice. This is particularly the case where derivative instruments are used.

Clear Objectives

We agree with this Principle. However, we do not believe it will always be possible to include 'scheme and member expectations' in the mandates given to managers. In particular pooled funds, which by their nature attract a wide investor base, will not be able to tailor their approach for individual schemes.

Risk and Liabilities

We agree that investment decisions should take account of the specific scheme's liabilities and quality of the sponsor covenant. The best practiced guidelines could be reworded in the interests of clarity. For example, it is unclear whether the first point refers to underperformance of the scheme's assets relative to the scheme's overall investment benchmark or underperformance of a manager who for example has a particular approach or style bias not suited to current market conditions.

Performance Assessment

We agree that performance monitoring as assessment is important and that it should continue to be included in the principles.

In terms of the best practice guidance for external providers we would suggest that a measure of value, rather than simply price, is used. A variety of remuneration models are used in practice and these are tailored to individual circumstances.

Question 2 (continued)

Responsible Ownership

We agree that a responsible ownership principle should be kept. However, the best practice guidance given in the ISC principles only applies to UK equities which have been declining as a percentage of the assets of UK pension schemes. We believe there is scope to encourage wider engagement here.

Transparency and reporting

Again we agree that transparency and reporting is an important item that should be retained in the principles. It is a key means by which good governance can be demonstrated to the members of a scheme and other interested parties.

Question 3

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

We believe that trustees would benefit from some guidance in this area although scheme specific circumstances are likely to have a heavy influence on the content of reporting.

Question 4

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

In our opinion the wording included in the updated principles, best practice guidance and tools as set out in Annex C is adequate.

Question 5

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

We believe that it would be beneficial for the updated principles to be owned by a body with representatives from the various stakeholders. We are therefore broadly supportive of the proposal. While we believe it should contain representatives of all interested parties we do have concerns about how decision making can be accomplished given the following objective.

'the key objective for the group will be to ensure that the decision making process is consensual.'

This requirement could lead to a loss of responsiveness and in some cases an inability to reach a decision.

Terms of reference

The proposed terms of reference for the Investment Governance Group seem reasonable.

Question 6

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

Whilst we believe the DC principles should be updated we do not believe that the issues faced by DC schemes are directly equivalent to those faced by defined benefits schemes. In our view a separate set of principles is needed that address the needs of DC schemes and makes particular reference to education of members and how investment choices are communicated to members.

Question 7

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

Yes, we believe that this would be helpful. It can be difficult and not cost effective to apply the full scope of the principles to smaller schemes. We believe that a simpler set of principles may be appropriate although we are conscious that this would introduce an additional level of complexity in applying two sets of principles based on whether a scheme was deemed small or large.

Question 8

Should the proposed updated principles be adopted for LGPS use and LGPS stakeholders be involved in the investment group process?

Although there are differences in emphasis between private schemes and LGPS they are facing similar issues and have similar decision making and governance requirements. We therefore think it would be a mistake to exclude the experience and knowledge of LGPS schemes.

Contact details

Association of Consulting Actuaries
Warnford Court
29 Throgmorton Street
London EC2N 2AT
Tel: 020 7382 4594
Email: acahelp@aca.org.uk

Contact for this submission:

Brian St. John Hall (brian.st.john-hall@hewitt.com)
Chairman
ACA Investment Committee

20 June 2008
