



23 June 2008

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

By e-mail

Dear Sirs

### **Consultation on Updating the Myners principles**

The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on HM Treasury's consultation paper on Updating the Myners principles published in March 2008.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

### **Overall comments**

The Institute agrees with the NAPF's review of the Myners principles and agrees with the review's principal findings and recommendations. We welcome the practical advances and strongly support the framework of 'comply or explain' and the role of scheme members in assessing the quality of compliance or explanation. However we are of the view that regulation must remain proportionate and would caution against over regulation in this area. Our comments to the specific questions are set out below.

#### **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?**

The methods proposed embody proven good governance principles which are combined with practical guidance. As such we are of the view that the approach will improve standards of investment decision-making and governance surrounding investment decision-making in larger schemes where there are the resources to achieve this.

There is however little emphasis on smaller schemes and the challenges that they face and we fully support more guidance and assistance for small schemes (see below). Additional guidance on governance in a wider context would be useful. Whilst we acknowledge that the updated principles will be less prescriptive, reduced in number and are primarily aimed at defined benefit schemes we would like to see more of the principles becoming applicable to defined contribution schemes.

**Q2 Do you agree with the proposed updated principles (as set out in full in Annex C)?**

Yes, we agree with the proposed updated principles. We welcome the practical advances in the new approach. We particularly support the framework of “comply or explain” so that where trustees do not feel that a particular principle is appropriate to the circumstances of their scheme they should be able to explain why.

**Do you agree with the proposed best practice supporting guidance (as set out in full in Annex C)?**

We welcome the practical advances in the proposed approach. This is an area where a ‘one size fits all’ approach can lead to box-ticking and boiler-plate compliance statements which some schemes may have adopted in the past.

The proposed best practice supporting guidance will allow trustees to make the principles more scheme specific and allow them the flexibility of making meaningful disclosure statements by adapting the disclosure to their particular circumstances.

We support the approach that the form and content of reporting is not prescribed and that trustees should have a free hand to explain their approach to investment decision-making and governance as they see fit and appropriate.

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

Yes, we believe that guidance on the content of reporting against the updated principles is essential to ensure that the new principles are adopted and implemented quickly and with best effect. In particular the ‘comply or explain’ approach to disclosure to the extent that it is aimed at a wider community than scheme members needs to be fully thought through and guidance provided.

It may be disconcerting to trustees for the principle of publicity and disclosure to be applied at a scheme level where trustees duties to discharge their investment functions are owed to the members (and, indirectly, to the sponsoring employer) alone and not to any wider ‘stakeholder’ group.

**Q4 Should the proposed Investment Governance Group (IGG) consider the need for guidance on the location of reporting by trustees on their application of the principles?**

We believe that it should be a matter for trustees to decide on the location of the scheme specific reporting on their application of the updated principles. If there is a demand for guidance we believe that this should be considered by the proposed IGG.

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

We support the NAPF’s recommendation for greater industry ownership of the principles and the Government’s proposal to establish an IGG to address the issues identified by the NAPF where improvement in the governance of investment activities is identified. The proposed Terms of Reference are comprehensive and should be subject to regular review to ensure that they adequately reflect the continuing and developing role of the IGG and any updates and developments.

**Q6 Should the DC principles be updated by the IGG to reflect the changes to DB principles and those market changes affecting DC provision?**

We agree that the DC principles should be updated by the IGG. There should be continued and on-going work with DC pension schemes, trustees and providers to improve the governance of DC schemes in partnership with industry. This should include the development of guidance relating to the establishment of voluntary management committees (employer engagement) for contract-based schemes. We believe that this is necessary to reflect the changes which have affected the final salary scheme principles but also market changes affecting DC principles.

**Q7 Should the IGG take forward work to help small schemes in their application of the updated principles?**

We agree that small schemes would benefit from assistance in applying the principles and that the IGG are best placed to take that work forward. We are not convinced that tailored principles are required over and above the proposed principles. Guidance on the application of the updated principles for small schemes would be helpful as would clarity of what constitutes a small scheme.

**Q8 Should the proposed updated principles be adopted for Local Government Pensions Schemes (LGPS) use and LGPS stakeholders be involved in the IGG process?**

The LGPS is the only sector of the pensions industry which has statutorily recognised the need to 'comply or explain' in local authority funds' statements of investment principles and to that extent it would be useful to learn from the LGPS process. To the extent that they may benefit from the updated principles it would seem prudent to involve the LGPS in the IGG process so that their existing guidelines may be updated.

Given the involvement and the experience of the Institute's members as trustees of schemes of all sizes we welcome further and ongoing involvement in this area and in particular the IGG.

Please contact Vanessa Jones or myself should you wish to discuss any of the points raised in this response.

Yours faithfully



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