

Updating the Myners Investment Principles

Background

The Myners investment principles, so called after Paul Myners who was appointed by the Chancellor of the Exchequer to examine the investment decision-making of institutional investors, were introduced in October 2001. Myners concluded that many pension scheme trustees, unsurprisingly, lacked the necessary investment expertise to deal effectively with their investment consultants and fund managers. He surmised that this had a detrimental effect on their investment decision-making. The Myners principles were therefore introduced as a voluntary code of best practice with the intention of improving trustee investment decision-making and governance of pension funds.

In 2004 the Government reviewed how effective the Myners principles had been in changing trustee behaviours and found that progress had not reached the expected level in certain areas. The Government then asked the National Association of Pension Funds (NAPF) to assess the extent to which pension scheme trustees are applying the Myners principles and the extent to which scheme governance and the quality of trusteeship have improved.

NAPF Findings

The outcome of the latest review of the Myners principles by the NAPF was published in November 2007. The NAPF found that although trustees have largely responded positively to the Myners principles there was a much lower level of application of the principles among smaller schemes. The reason behind this is clear: by their very nature, small schemes have less access to expert advice and cannot access the efficiencies of scale enjoyed by larger schemes. The NAPF set out a framework to address the areas where further progress is required and the Government then issued their response.

Government Consultation

In March 2008, the Government published a consultation document proposing a framework which updates the Myners principles to ensure that they are more effective, by being less prescriptive, and more likely to be used and reported against by trustees. The consultation essentially adopts the NAPF's recommended approach with key aspects as follows:

- The number of principles should be reduced from ten to six to provide a sharper focus and more flexibility for different types of schemes in terms of their size, financial position and strategy, eg smaller schemes, defined contribution schemes.
- Existing guidance material should be built upon to meet the present needs of trustee boards and to help trustees apply the principles effectively.
- The Investment Governance Group (IGG) should be established, sponsored by HM Treasury and the Department of Work and Pensions (DWP) and chaired by the Pensions Regulator. The IGG should include industry representatives and trustees, who will co-own the updated principles, monitor their effectiveness, the quality of reporting against them, and make recommendations for improvements to investment decision-making and governance.

Revised Myners Principles

The six revised principles are outlined below.

Principle 1: Effective Decision-Making

- Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Principle 2: Clear Objectives

- Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Principle 3: Risk and Liabilities

- In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
- These include sponsor covenant strength, the risk of sponsor default and longevity risk.

Principle 4: Performance Assessment

- Trustees should arrange for the formal measurement of the performance of investments.
- Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Principle 5: Responsible Ownership

- Trustees should adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
- Trustees should report periodically to members on the discharge of such responsibilities.

Principle 6: Transparency and Reporting

- Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Trustees should provide regular communication to members in the form they consider most appropriate.

In October 2008, the Government published its response to the consultation and confirmed that there will be a smaller number of simplified high level principles linked to a body of accessible guidance and trustee tools, greater industry ownership of the principles and a more robust approach to disclosure within a voluntary 'comply or explain' approach.

The information in this note should not be relied upon or taken as an authoritative statement of the law.