

Response to Draft OECD Guidelines for Pension Fund Governance Document

October 2008

P-Solve welcomes the OECD's revised Guidelines for Pension Fund Governance. Since the previous guidelines were drafted in 2005, governing requirements have become more complex for the pensions industry. This is not least due to new investment opportunities, rising regulatory burdens and a harsh financial environment – with repercussions being felt globally. As noted in your paper, a risk-based approach highlights the need to align increased complexity with greater governance. Governance therefore plays an increasingly important role.

The aim of guidelines, such as these, is to improve knowledge of what constitutes broad standards of good governance. They should always seek to improve the standards of the governing body in representing the interests of the primary stakeholders - to ensure that as far as possible their objectives are met. We believe that these do achieve this goal.

There is benefit from the guidelines bringing together the best practice for governance of pension schemes across countries and from other governing bodies such as company boards, but retaining the focus on pension-related matters.

These guidelines focus on governance of the organisations involved in the running of a pension scheme, responsibilities of the stakeholders, and some areas of risk management. However, the paper does not seek to cover the full scope of governance matters for pension schemes in general.

We have a few comments to make about the individual sections that we feel may be of benefit to the overall content and layout of the document – these are highlighted below.

P-Solve's Suggested Amendments

Identification of Responsibilities

This section refers to “clear identification and separation of operational and oversight responsibilities in the governance of a pension fund”. Whilst the paper goes into some detail about the operational responsibilities of a pension fund (in the third paragraph of point 1 of the Annotations section), there is no clear explanation of what the oversight responsibilities are. Point 2 (“Governing Body”) sets out bullet points referring to the governing body's main responsibilities; however, these appear to be a short list of potential oversight responsibilities, rather than “overall” responsibilities.

We feel that the layout of the document could be improved by setting out the operational and oversight functions in turn in the “Identification of Responsibilities” section. Oversight responsibilities could benefit from being expanded albeit kept general. For example, these should include reference to investment monitoring, e.g. “monitoring the investments of the pension fund in order to ensure that the objectives set out by the governing body are attained”.

Governing Body

This section makes reference to various stakeholders of a pension fund, including the governing body, the managing board, executive staff, external service providers, and supervisory boards. Whilst we agree with the points put forward, greater clarity could be of benefit. We feel that a diagram or flow chart would be of great benefit to users of the guidelines to demonstrate the function of each party; and how they relate to/interact with each other; along with bullet points clarifying their key responsibilities.

Delegation and expert advice

The initial summary on the first page includes a sentence referring to the expertise required of governing bodies, i.e. “Where it lacks sufficient expertise to make fully informed decisions and fulfil its responsibilities the governing



body could be required by the regulator to seek expert advice or appoint professionals to carry out certain functions.” It may be useful to incorporate this sentence into the same section in the Annotations part of the paper.
Auditor

The Annotations section refers to the “whistle-blowing” responsibilities of the auditor (and the actuary in the corresponding section), and the fact that any breaches should be reported to the governing body. However, particularly in today’s economic climate, we believe ALL individuals involved in the running of a pension scheme should have a duty to notify the authoritative bodies of breaches of any legislation or rule of law relating to pension schemes. As a result we feel that it would be best to clarify this point elsewhere in the document – perhaps under the “Identification of Responsibilities” section.

Actuary

The Actuary section includes the following sentence: “The authorities or relevant professional bodies should use guidance in the significance of actions of non-compliance with the pension fund statutes and/or current legislation.” This generalisation should not be limited to that of the role of the Actuary. Similar to that suggested above, this sentence could be moved to the “Identification of Responsibilities” section.

Suitability

With reference to this section in Annotations, second paragraph, final sentence i.e. “Where the governing structure includes a general assembly of the plan membersthese would evidently not be subject to fit and proper criteria”. Instead, we suggest that at least some form of “fit and proper” criteria would remain appropriate for any members of a governing body regardless of whether they are plan members and beneficiaries.

Support for training at an industry level can be beneficial in the general sense. However, given the skill sets, set ups and needs of governing bodies vary, there are merits to advisers to the governing body - who know the nuances of each body and scheme – also being involved in the identification of suitable training courses and forms of education.

We would be happy to discuss any of the points set out above with you. If you would like to get in touch please contact Rebecca Broughton, Head of Governance Business at P-Solve, who would be happy to provide further explanation.

P-Solve Asset Solutions

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