



# INVESTMENT GOVERNANCE OF DEFINED CONTRIBUTION (DC) PENSION SCHEMES – INVESTMENT GOVERNANCE GROUP, THE PENSIONS REGULATOR

## ***About the IoD***

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 45,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 80% of FTSE 100 companies and 60% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 72%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies.

## ***Response to the Consultation***

We are pleased to have the opportunity to respond to this consultation. Rather than answering the questions in detail, we will make the following observations.

The first thing to say is that the Framework, Principles, Best Practice Guide and table of Accountabilities for Investment Governance of DC schemes are in line with the Myners Principles as updated in 2008, and represent good, practical, guidance for Trustees, Employers and Providers. As such, we welcome this Consultation. We also welcome the “flexibility for those with a responsibility to decide on their own approach” to compliance with the Framework and Principles, although we note that where a different approach is taken, the requirement is to “comply or explain” which we suspect will mean that there will be little deviation from the “norm” in reality.

It is, of course, almost impossible to argue against “good governance” in the same way that motherhood and apple pie are regarded as good things. However, the reality is that today, provision of pension arrangements is a voluntary activity on the part of employers and all the evidence is that they have been gravitating towards contract based DC schemes precisely to get away from the regulatory “load”. These proposals will, of course, increase that “load” for contract-based schemes as well as for Trustees and Employers in trust-based DC schemes. There may be effects in the market from this, particularly as the National Employment Savings Trust (NEST) comes into being from 2011/2012.

Furthermore, there seem to us to be issues of potential proportionality here, in that large employers may be more able to absorb these changes, whilst for smaller employers, the changes may be onerous or actually beyond their capacity to implement. We note, for example, the requirement to take into account the Institutional Shareholders’ Committee Stewardship Code in adopting a policy on Responsible Ownership (page 11 – should this not be carried through elsewhere in the paper?) which will be a stretch for many Trustees to grasp and is a huge piece of work in its own right. Again, the suggestion is that a Management Committee should be established for contract-based schemes. For small employers running a contract based Group Stakeholder scheme, for example, this will be onerous. Better that employees have some retirement savings than that they have well-governed savings, or none at all?

In reality, responsibility in contract based schemes for such things as investment governance/default strategy, effective decision making, communication and appropriate investment options will fall back to, or be delegated to, providers. This will represent a significant workload for them. Employers, and especially small employer, do not wish to be experts in pensions and governance. This same effect might well bias those employers currently running DC schemes, and certainly those running no scheme at all, towards NEST, where all the governance and other “boxes” are pre-ticked and where the employers, effectively, will not have to concern themselves with the detail.

Malcolm Small  
Senior Adviser, Pensions Policy  
Institute of Directors