

Trustee governance



CAMERON LAW

Trustees are a mixed bunch these days

Governance reviews for trustee boards can benefit schemes and help maximise trustees' time, says **Clive Gilchrist**

I have two pension scheme clients undertaking governance reviews at present, and my colleagues are involved in a number of others. A few years ago this would have been unknown; pensions governance is a term that, until recently, meant little to anyone. It is at once both all embracing and nebulous – it can mean almost anything or virtually nothing.

But that belittles it; the way trustees conduct their affairs is very important. While the traditional trustee role has remained broadly unchanged for decades, trust law responsibilities have been overlaid with thousands of pages of imposed legislation and regulations. Yet trustees are drawn from scheme members, employees past or present, and appointees of the sponsoring employer, albeit often supplemented by an independent trustee. Most of them have a 'day job' – trusteeship is not their profession and it has to be fitted in around their principal role. And whatever the pensions act or indeed trustees' employers may say, their line manager all too frequently ignores their trusteeship role when allocating tasks or evaluating performance.

The role of trustee may not have changed for years, but its complexity has increased enormously. Actuarial valuations have become more involving and have combined with asset liability studies and, more recently, with formal sponsor

covenant reviews to provide the three legs of member security; the investment tools available have changed beyond recognition in markets that have become far more volatile.

The governance reviews that I am involved in are concerned to ensure that trustees can properly fulfil their duties and manage their affairs well without excessive use of their time; the buzz word is 'the governance budget'.

This involves a critical examination of the meeting cycle and the committee structure to ensure that valuable time is used as efficiently as possible. Is the board the right size? Do board members have appropriate skills and have they been sufficiently trained? How are committees structured? Should trustees rotate between committees, or should specialist knowledge be allowed to develop? Is there an optimum size for boards and committees? Are quarterly meetings adequate? Are sub committees decision-making bodies or advisory bodies? Do their terms of reference make sense? Is everyone pulling their weight, or does the burden fall on just a few? How do we measure trustee performance? How do we measure the chairman's performance (and the independent trustee)?

These are all important issues, and what I find most fascinating is that there is no uniquely correct approach, though I have seen many sub-optimal ways of going about it.

For example, it is extremely important (though sometimes challenging) to ensure that the budget issues do not result in governance becoming a 'tick box' exercise. At the other extreme, a governance review that ends up with lengthy document detailing procedures that are unlikely to be followed in the real world of trusteeship is a waste of everyone's time.

Governance reviews are all about time and skill management; both are scarce resources. They are also about getting the best out of advisers; using them efficiently while not using them unnecessarily – particularly important in these budget-constrained times.

It is difficult to generalise because schemes vary so much in size and complexity, but many trustee boards meet more frequently than hitherto; formal meetings may still be quarterly, but are supplemented by additional committee meetings, teleconferences and so on. And meetings have substance – it is many years since the lunch took longer than the trustee meeting that preceded it. If efficiencies can be made in meeting time, delegated authorities or use of committees, it is important that they are.

Periodic formal governance reviews may be a relatively new idea, but they can contribute significantly towards improved scheme management.

Clive Gilchrist is chief executive of Besttrustees