

# NETWORK FOR SUSTAINABLE FINANCIAL MARKETS, 2008. *Comments on OECD Guidelines for Pension Fund Governance.*

UKSIF summary, 2009.

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### I. Key points

- Steward and Yermo (2008) claim that pension fund governance is a global phenomenon and good pension fund governance lowers costs and improves investment performance.
- Watson Wyatt (2008) states that pension fund investment management increased without a corresponding increase in aggregate pension fund investment performance.
- According to Graham, Harvey and Rajgopal (2006), pressure to deliver short-term investment results has become so strong that nearly 80% of corporate managers would sacrifice short term earnings to meet investor expectations.
- The NSFAM proposes:
  - Regulators could be encouraged to clarify interpretations of fiduciary duty
  - Pension funds could be required to make a clear statement about their investment beliefs
  - Pension fund audits could include regular verification of controls relating to risk management and conflicts of interest
  - Regulators could establish certification standards and/or auditors could review compliance with industry “fit for purpose” criteria for pension fund boards and trustees.
  - Actuaries could be required to separately evaluate and report on intergenerational plan funding status
  - Actuarial analysis of DC contribution plans could be required
  - Additional interdisciplinary research could be funded
  - Tax policies applied to pension funds could be examined to identify tax law changes that would encourage better plan structures and investment practices.
  - Regulators and pension fund organisations should be encouraged to sponsor fiduciary training programs.

## II. Some readings mentioned

- Pension Fund Governance: Challenges and Potential Solutions  
Fiona Steward and Juan Yermo  
[Link](#)
- Defining Moments: The pensions and investment industry of the future  
Watson Wyatt  
[Link](#)
- Value Destruction and Financial Reporting Decisions  
Graham, Harvey and Rajgopal  
[Link](#)
- CEO and CFO Career Consequences to Missing Quarterly Earnings Benchmarks  
Srinivasan, Mergenthaler and Rajgopal  
[Link](#)
- How to escape the short-term trap  
Ian Davis  
[Link](#)

## III. Key quotes

- “It will be difficult for markets to seek application of governance standards to sovereign wealth funds if similar standards are not also applied to national pension funds” (NSFM 2008, p. 2).
- “Interpretations of fiduciary duty must recognise that herding behaviour of a growing capital pool presents an additional risk for all pension fund investors” (NSFM 2008, p. 3).
- “We can no longer afford to ignore extra-financial concerns (e.g., regulatory changes, political trends, climate change, reputation risk, manager perception biases) that can affect investment returns, harm beneficiaries and present real risk exposures, merely because they have traditionally not been ascribed monetary or investment value” (NSFM 2008, p. 3).
- “Climate risk, under-funding risk, exposure to corporate governance risks at portfolio companies and future political or regulatory risk are examples of long-term threats to the best interests of younger fund participants that are regularly ignored by many fiduciaries” (NSFM 2008, p. 4).
- “Lack of needed expertise at the fiduciary and pension fund staff levels has increasingly placed fund management at the mercy of agents and advisors to whom power has been delegated” (NSFM 2008, p. 5).