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THE CLAPMAN REPORT ON PENSION FUND GOVERNANCE:

WHY ITS 'BEST PRACTICES' PRINCIPLES FALL SHORT

"If we're going to espouse governance principles to companies we invest in, we should make sure we're upholding the same things we're espousing."

Peter Clapman
Chair, Committee on Fund Governance
Stanford Institutional Investors Forum

Pension Fund Governance Catches *Wall Street Journal's* Attention

While corporate governance issues are now regular front-page fare in the media, this is not yet the case with pension fund governance. So when the *Wall Street Journal* runs an article titled "Group Turns Governance Spotlight on Pension Plans", that is news in its own right. The *WSJ* article expressed surprise at how basic many of the proposed 'best practice' principles recommended by the Clapman Committee are. The article observes: "Some recommendations are so elementary they hardly seem worth stating." For example, trustees should educate themselves about their duties. Those duties should be explicitly stated and posted on the fund website. A fund should identify and disclose its leadership structure. Surely this is all self-evident!

Mr. Clapman defended his Committee's work, observing that "a very large percentage of funds are not doing one or more" of the things the report recommends. He pointed to a number of US state and municipal pension funds currently under investigation for a variety of alleged de-meanors (e.g., New Jersey, Illinois Teachers', San Diego). Even TIAA-CREF, where Mr. Clapman was head of corporate governance, has

had some governance difficulties in the past. Someone from Institutional Shareholder Services was quoted in the article as saying that during some pension trustee education sessions on fiduciary responsibility... "half the trustees are on the golf course."

Readers will recall last month's *Letter* contrasted the effectiveness of governance structures of pension organizations created and managed in trust law-based frameworks, with those created and managed in functional effectiveness-based frameworks. In this *Letter*, we observe that the Clapman Committee tries hard to articulate a set of fund governance principles that reach beyond the restrictive trust law-based framework. While they achieve considerable success, we argue that their work product falls short of what both research and experience tell us are the governance and organization effectiveness standards of 'high performance' pension delivery organizations around the globe today.

[In their defense, we observe (admittedly somewhat tongue-in-cheek) that the Committee worked under two material handicaps: (1) out of an 11-member committee, eight were lawyers, and (2) the number of committee members from outside the USA was zero.]