New BNY Mellon-Cass study establishes new industry framework for pension scheme governance in today's risk-focused world

LONDON, October 21, 2013 – A new study published by BNY Mellon, the global leader in investment management and investment services, in association with Cass Consulting at Cass Business School, part of City University London, lays out a framework to help trustees to better navigate the complexities of today's risk-focused world.

New, more complex, more illiquid asset classes, the incorporation of derivative overlays and new regulations have all combined to produce an exponential increase in the governance burden on trustee boards.

The study, by Cass Professor of Asset Management Andrew Clare and Cass Visiting Fellow Chris Wagstaff, is entitled '*Pension scheme governance in a risk-focused world'.* It proposes a transparent framework for a risk-based performance monitoring process. If adopted, such a framework would greatly enhance and strengthen pension scheme governance, according to the study.

Given the now widespread use of derivatives in pension scheme portfolios, the paper also proposes an alternative, more robust governance structure for monitoring derivatives portfolios, focussing on the often overlooked operational risks.

This structure envisages the establishment of a direct relationship between the scheme and the custodian that holds its derivative assets – very much in the spirit of the 2001 Myners Report recommendations for strengthening governance standards for pension schemes.

The study also examines trustees' motives for investing in less liquid and often more complex, 'bond-like' asset classes and goes on to propose a valuation approach that could be integrated into the monitoring framework that is being proposed.

The paper also argues that it is possible to improve pension scheme governance by making use of simple checklists that should enable trustees to monitor key investment and operational risks of the scheme.

Finally, in constructing the investment and operational risk checklists, the study identifies the minimum levels of knowledge and understanding that trustees require today to monitor the vast array of scheme risks efficiently. The study proposes that the widespread attainment of this minimum level of knowledge and understanding would greatly improve scheme governance.

Professor Andrew Clare comments: “The operational infrastructure which comes with integrating derivatives into an investment portfolio may seem dull, but it is both very necessary and very complex. In fact, it’s a bit like the plumbing in our homes: nobody notices or cares about their plumbing until a pipe bursts, or their boiler breaks down. The bottom line is that trustees really need to pay more attention to the plumbing supporting their derivative investments.”

Gerald Wellesley, EMEA Head of Pensions at BNY Mellon, said: “Our pension clients are increasingly challenged when it comes to developing and maintaining high standards of governance given the ongoing switch in focus from asset growth to risk management. They need better tools to support their planning around these changes and we are confident that the new framework outlined in this study will help provide schemes with the additional clarity and insight they require. We look forward to continuing to work closely with our clients and to provide them with access to a comprehensive range of solutions to support both their day-to-day needs and their longer-term strategic growth plans.”

‘*Pension scheme governance in a risk-focused world’* by Cass Professor of Asset Management Andrew Clare and Cass Visiting Fellow Chris Wagstaff

Notes to editors:

Chris Johnson, Press Officer, Cass Business School
Tel: +44 (0)20 7040 5210
Chris.Johnson.1@city.ac.uk

Cass Business School, which is part of City University London, delivers innovative, relevant and forward-looking education, consultancy and research.

Cass is located in the heart of one of the world's leading financial centres. It has strong links to both the City of London and its corporate, financial and professional service firms, as well as to the thriving entrepreneurial hub of Tech City – located close to the School.

Cass's MBA, specialist Masters and undergraduate degrees have a global reputation for excellence, and the School supports nearly 100 full-time PhD students.

Cass offers one of the widest portfolio of specialist Masters programmes in Europe. It also has the largest faculties of Finance and Actuarial Science and Insurance in the region. It is ranked in the top 10 UK business schools for business, management and finance research and 90% of the research output is internationally significant.

Cass is a place where students, academics, industry experts, business leaders and policy makers can enrich each other's thinking.

www.cass.city.ac.uk @cassinthenews

Cass Consulting is a research-led consultancy service provided by Cass Business School. It takes academic research and skills and applies them to deliver great results for business.

Cass's academic research is rigorous, outward-facing and impartial. While grounded in theory it is always relevant to practice.

Cass consultants work with clients to interpret and apply the outcomes of research in a tailored way to improve business performance.

The team works with each individual client to discover and define their specific requirements, and then draws on the collective knowledge of Cass faculty to develop the right approach to answering this need.

Areas of expertise include financial and professional services, actuarial science and insurance, business management and the third sector.

www.cassknowledge.com @CassKnowledge

Tim Steele, Corporate Affairs, BNY Mellon
Tel: +44 20 7163 5850
tim.steele@bnymellon.com

BNY Mellon's Asset Servicing business supports institutional investors in today's fast-evolving markets, safeguarding assets and enhancing the management and administration of client investments through services that process, monitor and measure data from around the world. We leverage our global footprint and local expertise to deliver insight and solutions across every stage of the investment lifecycle.

BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of September 30, 2013, BNY Mellon had $27.4 trillion in assets under custody and/or administration and $1.5 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: BK).

Additional information is available on www.bnymellon.com or follow us on Twitter @BNYMellon.