

**2004 Pension Lawyers Association Conference**  
**15 - 17 February 2004**  
**Cape Town International Convention Centre**

**CHANGING TOMORROW**  
**SHARING KNOWLEDGE AND EXPERIENCE.**  
**PREPARING FOR THE FUTURE.**

“Demystifying governance”

Michael-John Albert

Deloitte.

# Agenda

- Introduction Liz Gamble
- Demystifying Governance – why a proper governance framework is crucial for all funds Michael-John Albert
- Discussion of critical governance areas All
- Conclusion Liz Gamble

ABC Ltd

Board of Directors

Director 1  
NYNY  
Chairman  
Belco Oil and Gas

Director 2  
Colorado USA  
Chairman  
Comdisco  
Sec. General  
US Olympic  
Committee

Director 3  
Hong Kong  
Chairman  
Hang Lung Group

Director 4  
Texas USA  
Former Chairman  
Gulf & Western

Director 5  
Washington DC  
Director  
Regulatory Studies  
George Mason  
University  
Former Chair, US  
Commodity  
Futures Trading

Director 6  
Oregon USA  
Former Chair and  
CEO of Portland  
General Electric  
Co

Director 7  
Calif. USA  
Form. Dean of  
Acc.  
Stanford Univ.

Director 8  
Conn USA  
Former SVP  
Pen Central  
Corporation

Director 9  
Texas USA  
Professor - Retired  
U of Texas Med.

Director 10  
Texas USA  
President  
U of Texas

Director 17  
Chairman  
of the  
Company  
Executive Director

Director 16  
London  
Former UK Sec of  
State on Energy  
Leader House of  
Lords &  
Commons

Director 15  
Conn USA  
Advisor to the  
Chairman of the  
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Conn USA  
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Capital Mgmt Int.

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Brazil  
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CEO  
State Bank of Rio  
de Janeiro, Brazil

Director 11  
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Chairman  
Tektronix

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Co

## An analysis of this company's Board reveals:

- Strong academic and commercial knowledge in accounting
- Geographic and Ethic spread – in line with their business presence
- Independent directors and good mix of age/experience
- Challenging mix of executive and non-executive directors
- Smattering of ex-regulators and politicians
- Deep industry knowledge
- Cross-industry experience – Banking/Construction/Resources

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# Enron's Board of Directors

Director 17  
Chairman  
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Company  
Executive Director

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Acc.  
Stanford Univ.

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Corporation

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# Background

- What is all this governance fuss about?
- Recent industry changes increase the importance of governance
  - shift to member risk
  - change in the composition of Boards
- A sound governance framework for your fund is a pre-requisite

# Approach to Good Governance

- Understand the operations of the fund
- Perform a detailed risk identification and control exercise
- Avoid documentation overload
- Ongoing risk management

# Approach to Good Governance

- Two elements of good governance
  - **Structural** governance
  - **Behavioural** governance

# Key aspects of “Behavioural” Governance

- Values and code of conduct
- Independence
- Training
- Evaluation of performance
- Authority framework and delegation of duties
- Role of the Principal Officer

# The Ten Big Mistakes... (courtesy of Fortune Magazine)

Slave to Wall Street  
 See No Evil  
 Overdosing on risk  
 Dysfunctional Board  
 Softened by Success  
 Strategy du Jour  
 Acquisition Lust  
 Fearing the Boss  
 Dangerous Culture  
 Death Spiral

-  Enron
- Arthur Anderson
-  Global Crossing
- Lucent
-  Warnaco
-  Kmart
- Providian
-  Sunbeam
- Tyco
- WorldCom
- Xerox
- AT&T
-  Polaroid
- Qwest

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 Filed for Bankruptcy

# Key aspects of “Behavioural” Governance

- Authority framework and delegation of duties
- Role of the Principal Officer

# Key aspects of “Structural” Governance

- Internal controls operated by the fund or outsourced service providers
- Service Providers
- Investments

# Approach to Good Governance

- Costs – who should foot the bill?
- Practical implementation
- Conclusion

# Discussion of Critical Governance areas

# Trustee Training and Orientation

- Frequency of assessing trustee training needs
- Assessment of training programme
- New trustees – access to essential fund papers and introduction
- Minimum requirements for trustees
- Ongoing training

# Evaluation of Trustee Performance

- How, when and by whom
- Individual / trustee body
- Dealing with the consequences
- Rules / Code of Conduct to cater for process

# Service Providers to the Funds

- Agreements in place
- Frequency of review of service levels and fees
- Service levels actively monitored
- Consequences of non delivery
- Code of Conduct for service providers to funds?

# Code of Conduct

- Binding on each trustee
- Consequences for breaches
- Contained in rules / disclosed to members
- Include compulsory disclosure of interests and gifts

# Communication Policy

- Communicate beyond the minimum disclosure requirements
- Communicate governance mechanisms in place
- Manner of communication appropriate to membership
- Communicate information on trustees, attendances, remuneration, expenses

# Conclusion