WORKING PARTY ON PRIVATE PENSIONS

CORE PRINCIPLES OF PRIVATE PENSION REGULATION

2-3 June 2014

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INTRODUCTION

1. This document contains the proposed revisions to the Core Principles on Occupational Pension Regulation. The Core Principles are hereafter referred to as the Core Principles on Private Pension Regulation, as discussed in the Working Party on Private Pensions (WPPP) and consistently with the Terms of Reference of the Working Party (DAFFE/AS(99)3/REV1).

2. The proposed revisions are primarily based on the high-level suggestions by the WPPP for improving the Core Principles that resulted from the review of the implementation of the Recommendation (DAF/AS/PEN/WD(2011)21/REV1). The document also incorporates comments received during the 2012 and 2013 meetings of the WPPP, and the follow-up written comments received.

3. The high level suggestions by the WPPP for improving the Core Principles identified the need to extend the focus of the Core Principles from being principally on occupational pensions to also include other types of funded private pension arrangements. Chile, Estonia and Russia have already chosen to apply the Core Principles to other types of private pension plans during their accession reviews in the WPPP, insofar that they are relevant. Additionally, in OECD and partner countries there is a growing importance of private pension plans which are not sponsored by employers. The revisions of the Core principles therefore aim to inter alia facilitate the application of the instrument to different types of private pensions in a more efficient and flexible manner.

4. In order to take into consideration distinctions between occupational and personal pension plans a previous version of this document discussed at the WPPP meeting in June 2013 (DAF/AS/PEN/WD(2012)3/REV2), incorporated the separation of the Core Principles into three main sections. The first six of the revised Core Principles contained in Part I of this document are applicable to all types of private pension systems provided by pension funds and pension entities. Part II encompasses Core Principles specific to occupational pension plans and Part III specifies Core Principles for personal private pension plans. The Core Principles for personal private pension plans draw heavily on the OECD/G20 High Level Principles for Financial Consumer Protection, and the Insurance Core Principles on Consumer Protection issued by the International Association of Insurance Supervisors (IAIS).

5. This previous version (DAF/AS/PEN/WD(2012)3/REV2) included modifications to ensure greater consistency between the principles and implementing guidelines and to streamline the language. It also reflected feedback received from the World Bank, which has drawn on a comparison between the different international standards for insurance (IAIS), securities (IOSCO), actuarial practices and pensions; and the use of these standards in the Financial Sector Assessment Programme (FSAP) carried out by the IMF and the World Bank.

MAIN REVISIONS INTRODUCED

6. The revisions incorporated in this version of the Core Principles of Private Pension Regulations take into consideration the discussions at the June 2013 meeting of the WPPP and the written comments received from delegates and international bodies, including detailed comments made by the International Actuarial Association (IAA). The comments from the IAA focused on pension plan liabilities, funding rules, winding up and insurance under Core Principle 7. The revisions also draw upon the G20/OECD High-Level Principles of Long Term Investment Financing by Institutional Investors. Annex 2 contains a detailed
description of all the comments that have been submitted to the Secretariat as well as the Secretariat’s treatment of the comments. The main changes made to the text of the Core Principles (CP) and their implementing guidelines (IG) are the following:

- The text on the scope of the principles has been amended to better identify to which types of pension plans the core principles apply to. The Secretariat has aspired to fully address the concerns raised by some delegates about these principles applying to pension plans in which individuals contract out with banks, insurance companies or other institutions other than pension funds or pension entities. The definition of the pension plans that applies in the revised principles is broader than in the previous Core Principles on Occupational Pension Regulation. This is in order to increase the flexibility of Core Principles so that they encompass a broader range of private pension provision than just plans that are principally administered by the employer. This modernises the Core principles given the growing role of personal private pension plans in a number of OECD and partner countries. However, countries may choose to continue to apply the Core Principles only to occupational pensions.

- The text referring to the need to develop clear quantitative and qualitative targets for private pension plans has been adjusted to make CP 1 broader and still maintaining the main essence of the recommendation. IG 1.ii has subsequently been adjusted to emphasize the promotion of data availability to be able to better design and implement private pension plans according to their objectives.

- CP1, 3 and 4 and the relevant implementing guidelines have been adjusted to better address the long-term nature of retirement savings at their link to long-term investment in line with the G20/OECD High-Level Principles of Long-Term Investment Financing by Institutional Investors.

- New text has been added to IG 4.8 to address the issue of pension funds pledging assets as collateral when investing in more complex instruments. IG 4.i has been added to include a recommendation regarding borrowing by pension funds.

- The text in CP 5 and IG 5.1 referring to the assessment of adequacy in private pension plans has been amended to widen the scope facilitate the comprehensibility and the implementation of the guideline.

- To avoid repetition, IG 5.7 has been merged with IG 4.7 where it is a more appropriate to take up issues related to investment choice and default options.

- CP 7 has been subject to various modifications to clarify the language and ensure consistency with actuarial practices. A clearer description of the content of the written funding policy has been added in IG 7.6. The treatment of the surpluses in IG 7.i has been revised to better take into account actuarial considerations in the calculation of surpluses. Changes to IG 7.19 clarify the need to promote a countercyclical approach in situations of over and underfunding of a pension plan.

- The issue of fair treatment of spouses and dependents in IG 8.i has been removed and has been replaced by IG 5.i which deals with adequate disclosure of information to spouses and dependents regarding their rights.

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1 In this way, any concern about the possible overlap of these principles with the existing regulatory standards for banks, insurers, and collective investment schemes should be overcome.
• IG 8.ii has been added, recommending that savers should be able to consolidate their savings from different plans. This is especially important if they have small accruals in different DC plans.
• IG 10.1 has been merged with IG 10.2. Encouraging equal treatment has been highlighted in IG 10.2.
• As agreed by the WPPP in June 2013, in order to strengthen the value and importance of the recommendations in the document that “should” instead of “may” is now systematically used.

-- Delegates are invited to consider the proposed changes to the text of the Core Principles and Implementing Guidelines as contained in Annex 1 and as summarised in paragraph 5.

Background

7. Private pension systems play a major role in OECD countries and worldwide, complementing retirement income from state sources. Their financial importance is highlighted by the volume of assets they manage on behalf of plan members, USD 32.1 trillion in December 2012, of which pension funds represent 67.9%, banks and investment companies 18.5%, insurance companies 12.8%, and employers’ book reserves 0.8%.

8. OECD Members encourage more efficient regulation and management of private pension systems through analysis and policy dialogue, as well as through the development of best practices incorporated in the Core Principles of Occupational Pension Regulation, adopted as a Council Recommendation in 2004 [C(2004)41] and revised in 2009 [C(2009)57]. The Core Principles and supporting guidelines are addressed to governments as well as pension fund regulatory and supervisory authorities worldwide. They were developed under the auspices of the OECD’s Insurance and Private Pensions Committee (IPPC) in cooperation with other international organisations, notably the International Organisation of Pension Supervisors (IOPS), which has members from over 60 countries. The Core Principles are also being used as part of the accession review of private pension systems in the candidate countries using a methodology developed for this purpose [see DAF/AS/PEN/WD(2008)1/REV3].

9. The Core Principles of Private Pension Regulation are non-binding, they are a Recommendation. There are ten core principles, which cover seven key areas:

1. Conditions for effective regulation;
2. Establishment of pension plans, pension funds, and pension fund managing companies;
3. Pension plan liabilities, funding rules, winding up, and insurance;
4. Asset Management;
5. Rights of members and beneficiaries and adequacy of benefits;
6. Governance; and
7. Supervision.

10. Each of the core principles consists of a main text and a set of implementing guidelines. In the case of the Core Principle on Supervision, the supporting guidelines integrate the IOPS Principles of Private
Pension Supervision. The document presents all the core principles first and then each of them with their respective guidelines in Annex 1.

11. The IPPC, via its Working Party on Private Pensions (WPPP), has conducted a thorough implementation review of the Recommendation (DAF/AS/PEN/WD(2011)21/REV1). The implementation review revealed that many OECD governments that had reformed their regulatory frameworks for private pension systems had benefited from the OECD’s work. The high level suggestions regarding the Recommendation based on the questionnaire responses proposed inter alia extending the Recommendation to also incorporate all private pension plans administered by pension funds, to reflect lessons learnt from the turmoil in financial markets in the past years, to harmonise the principles with guidance issued by other bodies, to reflect developments in international accounting practices and to give due consideration to the FSB’s principles of reducing the use of CRA ratings in the regulation and supervision of private pensions.

12. These changes are reflected in the revisions made to the Recommendation, in particular to the guidelines that assist effective implementation of the Core Principles to private pensions. The IPPC proposes that the modifications outlined in this document are included in a new Recommendation on Core Principles of Private Pension Regulation set out in the Annex hereto, which would replace C(2009)57.

Scope of application

13. This draft recommendation is intended to set out good practices in the area of private pension regulation and supervision worldwide. It contains general principles that are applicable to all funded private pension arrangements, as well as specific principles for occupational and personal arrangements as defined in the glossary.2

14. Notwithstanding the broad scope of the general principles, countries may decide to restrict their application to occupational pension arrangements (including arrangements for public sector workers) in which the role of the employer is to establish the plan and/or is responsible for any shortfall, and to personal pension plans that are financed via pension funds or pension entities.3

15. Non-OECD countries are also invited to adhere to the Recommendation.

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2 The definitions and terminology are in accordance with the “Private Pensions OECD Classification and Glossary” agreed by the Working Party on Private Pensions.

3 EU countries may choose not to apply Core Principles 2 to 4 and 7-10 to those occupational private pension plans, pension funds and pension entities that fall outside the scope of the Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the Activities and Supervision of Institutions for Occupational Retirement Provision. This includes institutions that operate on a pay-as-you-go basis, institutions where employees of the sponsoring undertakings have no legal rights to benefits, companies using book-reserve schemes with a view to paying out retirement benefits to their employees.
CORE PRINCIPLES ON PRIVATE PENSION REGULATION

PART I: GENERAL PRINCIPLES

Core Principle 1: Conditions for effective regulation

Private pension systems should have clear objectives that guide how the legal, market, regulatory and supervisory framework aims to balance the priorities of sufficient coverage, and the provision of efficient, sustainable, secure and adequate pensions in the short and long term. A productive, diversified investment of retirement savings which spreads risk requires well-functioning capital markets and financial institutions. The development of funded pension systems should go hand-in-hand with a strengthening of the financial market infrastructure including supporting stable macroeconomic conditions that are conducive to longer-term investment, by maintaining credible monetary policy frameworks, responsible fiscal policies and sound financial sector regulatory environments.

Regulation should promote a level playing field between the different operators. The fair competition should allow for the development of adequate private pensions markets, favour the provision of cost-efficient pension arrangements, and be of benefit to members and beneficiaries.

Regulatory provisions for private pensions should be enforced in a comprehensive, dynamic and flexible way (taking into account the complexity of the schemes, the environment in which the pension system operates, and the stability of the economy as a whole) in order to ensure the protection of pension plan members and beneficiaries and the soundness of pensions plans and funds. This framework should, however, not provide excessive burden on pensions markets, institutions, or employers. The system parameters and operation should also be appropriate given the availability of economic, demographic and personal data.

Core Principle 2: Establishment of pension plans, pension funds, and pension fund management companies.

An institutional, transparent and functional system of adequate legal, accounting, technical, financial, and managerial criteria should apply to pension plans, pension funds and pension fund management companies, jointly or separately, but without excessive administrative burden. The pension fund should be legally separated from the sponsor (or at least such separation should be irrevocably guaranteed through appropriate mechanisms).

Core Principle 3: Pension governance

Regulations on pension governance should be guided by the overriding objective that pension plans are set up to serve as a secure source of retirement incomes. The governance structure of pension funds and pension entities should ensure an appropriate division of operational and oversight responsibilities, and the accountability and suitability of those with such responsibilities. Pension entities and pension funds should have appropriate control, communication, and incentive mechanisms that encourage good decision making.
proper and timely execution, transparency, and regular review and assessment. The governing body of a pension fund or pension entity should ensure that the investment strategy of the institution takes into account the profile and duration of its liabilities and follows a prudent approach.

Core Principle 4: Pension fund investment and risk management

Investment by pension funds should be adequately regulated. This includes the need for an integrated assets/liabilities approach, for both institutional and functional approaches, and the consideration of principles related to diversification, dispersion, and maturity and currency matching. Pension funds should act in line with their investment horizon and risk-return objectives, taking into account the long-term nature of their liabilities.4

Quantitative regulations and prudent-person principles should be carefully assessed, having regard to both the security and profitability objectives of pension funds. Self-investment should be limited, and in cases where there are no appropriate safeguards in place to ensure diversification, it should be prohibited. Investment abroad by pension funds should be permitted, subject to prudent management principles. Clear and objective performance benchmarks should be used.

Increased reliance on modern and effective risk management, industry-wide risk management standards for pension funds and other institutions involved in the provision of retirement income should be promoted. The development of asset liability management techniques should be given proper consideration.

Core Principle 5: Plan design, disclosure and redress

Proper assessment of adequacy of private plans (risks, benefits, contributions, coverage) should be promoted relative to the objectives of the plan, especially when these schemes play a public role, through substitution or substantial complementary function to public schemes, when they are mandatory, and when members face choices in the pension plan (for instance, the level of the contribution rate or the choice of investment option). Adequacy should be evaluated taking into account the various sources of retirement income (tax-and-transfer systems, advance-funded systems, private savings and earnings).5

Appropriate disclosure and education should be promoted as regards respective costs and benefits characteristics of pension plans, especially where individual choice is offered. Beneficiaries should be educated on misuse of retirement benefits (in particular in case of lump sum) and adequate preservation of their rights. Disclosure of the fee structure and level, investment options and their associated performance and benefits modalities should be required for all pension plans where such characteristics and choices apply.

Pension plan members should have access to appropriate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient.


**Core Principle 6: Supervision**

Effective supervision of pension funds and plans must be set up and focus on legal compliance, financial control, actuarial examination and supervision of managers. Appropriate supervisory bodies, properly staffed and funded, should be established in order to conduct when relevant off and on site supervision, at least for some categories of funds and in particular when problems are reported. Supervisory bodies should be endowed with appropriate regulatory and supervisory powers over individual plans, in order to prevent irregularities in the distribution, information disclosure and expenses methods.

**PART II: PRINCIPLES SPECIFIC TO OCCUPATIONAL PLANS**

**Core Principle 7: Occupational pension plan liabilities, funding rules, winding up, and insurance**

Occupational pension plans should be adequately funded. The adequacy of funding should be protected through mechanisms such as funding rules, winding-up provisions, and insurance.

While full-funding exists in principle for occupational defined contribution plans, other types of occupational plans should be subject to minimum funding rules or other mechanisms to ensure adequate funding of pension liabilities. Rules based on winding-up approach may be promoted as a minimum level to complement the ongoing approach. Flexibility can be allowed for temporary limited under-funding under restricted circumstances. Consideration should be given to the development of prudent but flexible requirements for minimum capital/guarantee in pension funds, taking account of the long term nature of their liabilities. Tax and prudential regulations should encourage a prudent level of funding. Private unfunded pay-as-you-go plans at individual company level should generally be prohibited.

Appropriate calculation methods for asset and liabilities valuations, including actuarial techniques and amortisation rules must be set up and based on transparent and comparable standards.

Proper winding-up mechanisms should be put in place. Arrangements (including, where necessary, priority creditors’ rights for pension funds and entities) should be put in place to ensure that contributions owed to the plan by the sponsor are paid in the event of its insolvency, in accordance with national laws.

The need for insolvency insurance and/or other guaranty schemes for occupational pension plans has to be properly evaluated. These mechanisms may be recommended in some cases but in an adequate framework. Recourse to insurance mechanisms (group and reinsurance) may be promoted.

**Core Principle 8: Access, vesting, and portability of occupational pension plans**

Non-discriminatory access should be granted to private pensions plans. Regulation should aim at avoiding exclusions based on age, salary, gender, period of service, terms of employment, part-time employment, and civil status. It should also promote the protection of vested rights and proper entitlement process, as regard to contributions from both employees and employers. Policies for indexation should be encouraged. Portability of pensions rights is essential when job mobility is promoted. Mechanisms for the
protection of beneficiaries in case of early departure, especially when membership is not voluntary, should be encouraged.

PART III: PRINCIPLES SPECIFIC TO PERSONAL PENSION PLANS

Core Principle 9: Funding of personal pension plans, wind-up and insolvency

Personal pension plans should generally be fully-funded at all times, in accordance with the relevant regulation applicable to the pension entity.

The merger of pension entities and the withdrawal of pension entities from the personal pension market should be subject to specific requirements concerning the continuity of existing contracts.

There should be proceedings in place for dealing with the insolvency of pension entities. Priority should be given to the protection of members’ pension rights or accumulated savings. Insolvency proceedings should also minimise disruption to the timely provision of benefits to members. Consideration should be given to the establishment of guarantee arrangements to protect pension rights in case of insolvency of the pension entity.

Core Principle 10: Equal treatment, business conduct, competition and portability of personal pension plans

There should not be any restrictions on access to personal pension plans. Members of personal pension plans should be treated equally and fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

Pension entities and authorised agents operating in the personal pensions market should have as an objective, to work in the best interest of their customers and be responsible for upholding financial consumer protection. Pension entities should also be responsible and accountable for the actions of their authorised agents.

Generally, members of personal pension plans should have the right to full portability. Nationally and internationally competitive markets should be promoted in personal pension provision in order to provide consumers with greater choice amongst financial services and create competitive pressure on providers to lower costs, create value for money, and maintain high service quality. Consumers should be able to search, compare and, where appropriate, switch between products and providers easily and at reasonable and disclosed costs.
Core Principle 1: Conditions for effective regulation

Private pension systems should have clear objectives that guide how the legal, market, regulatory and supervisory framework aims to balance the priorities of sufficient coverage, and the provision of efficient, sustainable, secure and adequate pensions in the short and long term. A productive, diversified investment of retirement savings which spreads risk requires well-functioning capital markets and financial institutions. The development of funded pension systems should go hand-in-hand with a strengthening of the financial market infrastructure including supporting stable macroeconomic conditions that are conducive to longer-term investment, by maintaining credible monetary policy frameworks, responsible fiscal policies and sound financial sector regulatory environments.

Regulation should promote a level playing field between the different operators. The fair competition should allow for the development of adequate private pensions markets, favour the provision of cost-efficient pension arrangements, and be of benefit to members and beneficiaries.

Regulatory provisions for private pensions should be enforced in a comprehensive, dynamic and flexible way (taking into account the complexity of the schemes, the environment in which the pension system operates, and the stability of the economy as a whole) in order to ensure the protection of pension plan members and beneficiaries and the soundness of pensions plans and funds. This framework should, however, not provide excessive burden on pensions markets, institutions, or employers. The system parameters and operation should also be appropriate given the availability of economic, demographic and personal data.

Implementing Guidelines for Core Principle 1

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<td>1.1</td>
<td>There should be clarity in the objectives set for the private pension system and its role in the overall retirement income system. The objectives of the private pension regulatory and supervisory framework should set out the balance given to the priorities of delivering efficient, sustainable, secure and adequate pensions and the breadth of coverage expected for private pensions.</td>
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<td>1.i</td>
<td>The regulatory framework, financial market structure, conduct and regulation of the different actors are coherent, so that each plays a complementary role in achieving the overall objectives for the system.</td>
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<td>1.2</td>
<td>The legal provisions promote the protection of pensions plan members and beneficiaries and the soundness of pension funds.</td>
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1.3 The legal provisions provide the necessary policy stability and flexibility in order to permit the efficient operation and development of private pension plans including the development of new financial instruments and new markets, such as inflation indexed markets and the improved functioning of retirement annuity markets.

1.4 The legal system allows the enforcement of financial contracts pertaining to private pensions. In particular, there is a body of ethical, professional and trained lawyers and judges, and a court system, whose decisions are enforceable. Comparable standards apply in cases where alternative dispute mechanisms exist.

1.5 Accounting, auditing and actuarial standards for private pensions are comprehensive, documented, transparent and consistent with international standards.

1.6 The legal provisions encourage efficiency and effectiveness in pension provision by promoting a sufficient scale of the institutions operating in the system, good governance, prudent management and by only imposing provisions where the costs are justified by the benefits.

1.ii The legal provisions should promote the availability of economic, demographic and personal data that is sufficient to design and implement private pension plans that are coherent with the objectives set for the plan and its role in overall retirement provision.

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Core Principle 2: Establishment of pension plans, pension funds, and pension fund management companies.

An institutional, transparent and functional system of adequate legal, accounting, technical, financial, and managerial criteria should apply to pension plans, pension funds and pension fund management companies, jointly or separately, but without excessive administrative burden. The pension fund should be legally separated from the sponsor (or at least such separation should be irrevocably guaranteed through appropriate mechanisms).

Implementing Guidelines for Core Principle 2

Legal provisions on registration and licensing

2.i Pension funds and pension entities should be established as independent legal entities. In the case of occupational pension plans, pension funds should be legally separated from the plan sponsor. Pension funds may have legal capacity (and hence constitute themselves a pension entity) or they may be managed by a legally separated entity with legal capacity (such as a pension fund management company, an insurer, or other financial institution) which constitutes the pension entity.

2.1 Legal provisions are in place requiring the registration and/or licensing of pension entities (and where relevant, pension plans) by the relevant authorities. Licensing and registration requirements are clear, transparent, and public. Licensing and/or registration requirements should be objective, fair and promote a competitive market.
2.2 Legal provisions are in place regarding the type of pension plans and/or pension funds that can be established and the permissible legal forms of pension entities.

**Governing documents**

2.3 Pension plans, pension funds and/or pension entities should have (jointly or separately) formal, written charters or documents describing their objectives. These documents should set out the plan’s parameters (such as types of contributions and benefits), governance structure and outsourcing or third party service provisions, and the rights of members and other beneficiaries.

**Risk control, reporting and auditing mechanisms**

2.4 Pension entities should have adequate risk control mechanisms in place to address investment, operational and governance risks, as well as internal reporting and auditing mechanisms.

2.5 If they manage more than one pension plan or fund, pension entities should be required to maintain separate accounts and records for each of the pension funds, or where relevant, each of the pension plans that they manage.

**Funding policy**

2.6 Pension entities that offer defined benefit (DB) (including hybrid and mixed plans) should have a funding policy that specifies the sources of funding, the actuarial method to be used, and the mechanisms for fulfilling legal funding requirements.

2.7 Where a pension entity manages assets for different pension funds or plans, separate funding policies and methods should be prepared for each pension fund or, where relevant, each pension plan.

**Investment policy**

2.8 Pension entities should prepare a statement of investment policy.

2.9 Where a pension entity manages different pension plans or funds, separate statements of investment policy should be prepared for each pension fund or, where relevant, each pension plan.

**Capital requirements**

2.10 Pension entities should be required to hold a minimum amount of free, uncommitted starting capital or otherwise have access to adequate financial resources. The amount should be dependent on the risks to be covered. The required minimum capital should not be used to cover set-up costs. In order to ensure the guarantee function of the minimum capital, legislation could require the setting aside of appropriate assets. In some jurisdictions, capital requirements may also be satisfied by the purchase of insurance providing the same level of protection to the plan members and plan beneficiaries.
### Governance

| 2.11 | Pension entities should have a governing body that is ultimately responsible for the entity and a code of conduct for the members of its governing bodies and staff. The code of conduct may be laid out in specific legislation applying to pension entities. |
| 2.12 | Member of the governing bodies of the pension entity should be subject to fit and proper requirements. |
| 2.13 | Pension entities should be required to keep a functional separation between those staff responsible for investments and those responsible for settlement and bookkeeping. |

### Business plan

| 2.14 | Pension entities should have a business plan which should at least include (i) a list of the plans/funds that the pension entity will manage; (ii) the types of obligations that the pension entity proposes to incur (e.g. return or benefit guarantees), if any; (iii) the estimated setting-up costs and the financial means to be used for this purpose; (iv) the projected development of the fund/plan; (v) the means for fulfilling capital requirements, if any; and (vi) details regarding the adequate risk control reporting and auditing mechanisms, and a sound investment policy that are in place or to be established at start-up. |

### License withdrawal

| 2.15 | Legal provisions require the withdrawal of a licence from a pension entity in certain circumstances. |
| 2.16 | Legal provisions grant a pension entity whose licence has been withdrawn, the possibility to appeal the decision and have it reviewed. |

### Role of the licensing authority in supervisory matters

| 2.17 | Legal provisions should establish the role of the licensing authority in the wider supervisory and regulatory system and, where there are separate licensing and supervisory authorities, require the supervisor to be consulted on each specific licence application. |
| 2.18 | The licensing authority should assess applications, make decisions and inform applicants of the decision within a reasonable time, which is clearly specified. |

### Clarity of licensing application procedure

| 2.18 | Licensing procedures should be clear, objective and transparent. They should set out the application process, including: |
|       | – information about the obligations on the licensing authority and the timeframe for the submission of applications and the decision process. procedures for the licensing authority to seek further information from the applicant; |
- the actions that the licensing authority will take to confirm the information received as part of the licence application;
- requirements that the staff of the licensing authority observe the appropriate standards of confidentiality with regard to the information gathered as part of the licensing application process (with the exception of information which may have to be provided to other public authorities).

2.iii The licensing authority should ensure that a licence clearly states its scope. It should also publish information on the pension entities that are licensed and the scope of their licences.

**Submission of documents**

| **2.19** | The licensing authority should have the power to require the submission of the governing documents and other documents necessary for assessing the entity’s compliance with the licensing requirements. |

**Assessment of the licence application**

| **2.20** | The licensing authority should have the power to: |
| - | examine the proposed legal, managerial and ownership structures of the applicant and its wider group (if any); |
| - | evaluate proposed directors and other members of the governing bodies as to their expertise and integrity, their skills and experience and their judicial records; |
| - | review the proposed strategic and operating plans of the applicant, including: |
| | - determining that an appropriate system of corporate governance, risk management and internal controls and a code of conduct will be in place, and |
| | - considering whether the operational structure of the applicant reflects the scope and degree of sophistication of the proposed activities of the applicant; |
| - | review the policies and procedures that the applicant has/intends to put in place to ensure ongoing compliance with its obligations under relevant legislation and the conditions of the licence and the risk management control framework established by the applicant; |
| - | review financial projections for the applicant and assess its financial strength and other resources; |
| - | identify and determine the suitability of major shareholders, if any, the ultimate beneficial owners, and others that may exert significant influence on the applicant, as well as assess the transparency of the ownership structure and the sources of initial capital (if such capital is required). |

| **2.21** | The licensing authority should, under specific circumstances, have flexibility in applying legislative requirements so that the type, scale and complexity of an applicant's activities may be taken into |
account in the assessment as to whether and how licensing criteria are met. The circumstances in which the licensing authority may apply legislative requirements flexibly must be clearly stated in legislation and protection against arbitrary action on the part of the licensing authority must be guaranteed.

2.22 The licensing authority may have the power to impose conditions on the licence of the applicant, and to subsequently vary or withdraw those conditions. The circumstances in which conditions can be imposed, withdrawn or modified must be clearly stated in legislation.

2.iv Where a pension entity is seeking to establish a branch or subsidiary in a foreign jurisdiction, the host licensing authority should consult the home supervisor as appropriate before the issuance of a licence.

2.v Where a pension entity is seeking to conduct cross border activities without a physical presence in the jurisdiction of the host licensing authority, the host licensing authority should consult as appropriate with authorities in the home jurisdiction of the pension entity before allowing such activities.

Guidance materials

2.23 The licensing and/or supervisory authority/ies may provide guidance to applicants regarding their expectations as to how they may meet licensing criteria, so that better internal systems (such as risk management systems) result for the applicant.

2.24 The licensing authority should provide appropriate guidance to officers carrying out the licensing assessment.

Power to reject, modify or withdraw a licence

2.25 The licensing authority should have the power to reject an application if the criteria are not fulfilled or if the information provided is inadequate, so that the assessment process supports the objectives of the licensing regime. Any rejection should include identification of the specific criteria on which the rejection is based.

2.26 The licensing authority should have the power to make adjustments to a licence already granted and to withdraw a licence when the conditions for the licence are no longer fulfilled. These powers must be clearly stated in legislation.

2.27 The licensing authority should have a review mechanism in place to examine the demands of an entity whose licence has been modified or withdrawn.

2.28 Decisions of the licensing authority should be open to administrative and legal appeal. Adequate protections to preclude arbitrary action on the part of the licensing authority should be in place.

Core Principle 3: Pension governance

Regulations on pension governance should be guided by the overriding objective that pension plans are set up to serve as a secure source of retirement incomes. The governance structure of pension funds and
pension entities should ensure an appropriate division of operational and oversight responsibilities, and the accountability and suitability of those with such responsibilities. Pension entities and pension funds should have appropriate control, communication, and incentive mechanisms that encourage good decision making, proper and timely execution, transparency, and regular review and assessment. The governing body of a pension fund or pension entity should ensure that the investment strategy of the institution takes into account the profile and duration of its liabilities and follows a prudent approach.

Implementing Guidelines for Core Principle 3

Identification of responsibilities

3.1 There should be a clear identification and separation of operational and oversight responsibilities in the governance of a pension fund. To the extent that a pension entity is established that owns the pension fund on behalf of plan/fund members and beneficiaries, the legal form of this entity, its internal governance structure, and its main objectives should be clearly stated in the pension entity's statutes, by-laws, contract or trust instrument, or in documents associated with any of these. If the pension fund is established as a separate account managed by financial institutions, the pension plan or contract between plan sponsors/members and beneficiaries and the financial institution should clearly state the responsibilities of the latter with respect to the management of the pension fund. As good pension fund governance should be ‘risk-based’, the division of responsibilities should reflect the nature and extent of the risks posed by the pension fund.

Governing body

3.2 Every pension fund should have a governing body\(^6\) vested with the power to administer the pension fund and who is ultimately responsible for ensuring the adherence to the terms of the arrangement and the protection of the best interest of plan members and beneficiaries. The responsibilities of the governing body should be consistent with the overriding objective of a pension fund which is to serve as a secure source of retirement income and profitability objectives and incentives should be properly aligned with this overriding objective. The governing body should retain ultimate responsibility for the pension fund, even when delegating certain functions to external service providers. For instance, the governing body should retain the responsibility for monitoring and oversight of such external service providers. Appropriate oversight mechanisms should also be established where the governing body is a commercial institution.

3.i The governing body of a pension fund or pension entity should observe its fiduciary duties towards the ultimate owners or beneficiaries of the assets they oversee. Such duties, when applicable, should include the prudent and efficient management of any long-term assets and the informed and effective use of their investor rights, including shareholder and creditor rights. Those persons and entities involved in the management of the assets should act in consistency with those fiduciary duties or their associated contractual obligations.\(^7\)

\(^6\) In a two-tier board system, involving a managing board and a supervisory board, the body which is responsible for all strategic decisions (usually the managing board) is considered the governing body.

### Accountability

3.3 The governing body of the pension fund should be accountable to the pension plan members and beneficiaries, its supervisory board (where relevant), and the competent authorities. Accountability to plan members and beneficiaries can be promoted via the appointment of members of the governing body by pension plan members and beneficiaries or their representative organisations. The governing body may also be accountable to the plan sponsor to an extent commensurate with its responsibility as benefit provider. In order to guarantee the accountability of the governing body, it should be legally liable for its actions which fail to be consistent with the obligations imposed on it, including prudence. In defined contribution plans, accountability may be subject to safe harbour rules, which clarify the responsibilities and liabilities of the governing body.

### Suitability

3.4 Membership in the governing body of the pension fund should be subject to minimum suitability (or non-suitability) standards in order to ensure a high level of integrity, competence, experience and professionalism in the governance of the pension fund. The governing body should collectively have the necessary skills and knowledge to oversee all the functions performed by a pension fund, and to monitor those delegates and advisors to who such functions have been delegated. It should also seek to enhance its competence and knowledge, where relevant, via appropriate training. Any criteria that may disqualify an individual from appointment to the governing body should be clearly laid out in the regulation.

### Delegation and expert advice

3.5 The governing body should rely on the support of sub-committees and should delegate functions to internal staff of the pension entity or external service providers. Where it lacks sufficient expertise to make fully informed decisions and fulfil its responsibilities the governing body could be required by the regulator or supervisor to seek expert advice or appoint professionals to carry out certain functions. The governing body should assess the advice received, including its quality and independence, and should verify that all its professional staff and external service providers have adequate qualifications and experience. The governing body should oversee remuneration for any delegated responsibilities to ensure alignment with the objectives of the pension fund.

### Auditor

3.6 An independent auditor should be appointed by the appropriate body or authority to carry out a periodic audit consistent with the needs of the arrangement. Depending on the general supervisory framework, the auditor should report promptly to the governing body and - if the governing body does not take any appropriate remedial action - to the competent authorities and other appropriate persons wherever he or she becomes aware, while carrying out his or her tasks, of certain facts which may have a significant negative effect on the financial situation or the administrative and accounting organisation of a pension fund.
### Actuary

3.7 | The governing body of a pension fund that supports a defined benefit plan should appoint an actuary to provide advice regarding, at a minimum, the calculation of liabilities, funding levels and compliance with related requirements. As soon as the actuary realises, on performing his or her professional or legal duties, that the fund does not or is unlikely to comply with the appropriate statutory requirements and depending on the general supervisory framework, he or she shall inform the governing body and - if the governing body does not take any appropriate remedial action - the supervisory authority and other appropriate persons without delay.

### Custodian

3.8 | Custody of the pension fund assets may be carried out by the pension entity, the financial institution that manages the pension fund, or by an independent custodian. If an independent custodian is appointed by the governing body of the pension fund to hold the pension fund assets and to ensure their safekeeping, the pension fund assets should be legally separated from those of the custodian. The custodian should not be able to absolve itself of its responsibility by entrusting to a third party all or some of the assets in its safekeeping.

### Risk-based internal controls

3.9 | There should be adequate internal controls in place to ensure that all persons and entities with operational and oversight responsibilities act in accordance with the objectives set out in the pension entity's by-laws, statutes, contract, or trust instrument, or in documents associated with any of these, and that they comply with the law. Such controls should cover all basic organisational and administrative procedures; depending upon the scale and complexity of the plan, these controls will include performance assessment, compensation mechanisms, information systems and processes and risk management procedures and internal audit function. The governing body should develop a code of conduct and a conflicts of interest policy for them and the staff of the pension entity as well as for any party with operational responsibilities. There should also be appropriate controls to promote the independence and impartiality of the decisions taken by the governing body, to ensure the confidentiality of sensitive information pertaining to the fund and to prevent the improper use of privileged or confidential information.

### Reporting

3.10 | Reporting channels between all the persons and entities involved in the administration of the pension fund should be established in order to ensure the effective and timely transmission of relevant and accurate information needed to make decisions and carry out operations in an appropriate manner.

### Disclosure

3.11 | The governing body should disclose relevant information to all parties involved (notably pension plan members and beneficiaries, supervisory authorities, auditors, etc.) in a clear, accurate, and timely fashion.
Core Principle 4: Pension fund investment and risk management

Investment by pension funds should be adequately regulated. This includes the need for an integrated assets/liabilities approach, for both institutional and functional approaches, and the consideration of principles related to diversification, dispersion, and maturity and currency matching. Pension funds should act in line with their investment horizon and risk-return objectives, taking into account the long-term nature of their liabilities.\(^8\)

Quantitative regulations and prudent-person principles should be carefully assessed, having regard to both the security and profitability objectives of pension funds. Self-investment should be limited, and in cases where there are no appropriate safeguards in place to ensure diversification, it should be prohibited. Investment abroad by pension funds should be permitted, subject to prudent management principles. Clear and objective performance benchmarks should be used.

Increased reliance on modern and effective risk management, industry-wide risk management standards for pension funds and other institutions involved in the provision of retirement income should be promoted. The development of asset liability management techniques should be given proper consideration.

Implementing Guidelines for Core Principle 4

Retirement income objective and prudential principles

4.1 The regulation of pension fund asset management should be based on the basic retirement income objective of a pension fund and require that the investment management function is undertaken in accordance with the prudential principles of security, profitability, quality and liquidity using risk management concepts such as diversification and asset-liability matching in order to achieve the best outcome for the plan members and beneficiaries.

Prudent person standard

4.2 The governing body of the pension plan or fund and other appropriate parties should be subject to a “prudent person standard” such that the investment of pension assets is undertaken with care, the skill of an expert, prudence and due diligence. Where they lack sufficient expertise to make fully informed decisions and fulfil their responsibilities, the governing body and other appropriate parties should be required to seek the external advice of an expert, but the governing body should have the expertise to fully understand the advice and challenge it if necessary.\(^9\)

4.3 The governing body of the pension plan or fund and other appropriate parties should be subject to a fiduciary duty to the pension plan or fund and its members and beneficiaries. This duty requires the governing body and other appropriate parties to act in the best interest of plan members and beneficiaries.

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beneficiaries in matters regarding the investment of pension plan assets and to exercise “due
diligence” in the investment process.

4.4 The legal provisions should require the governing body of the pension plan or fund to establish a
rigorous process by which investment activities are carried out (see Guidelines 4.5-4.12 on
investment policy), including the establishment of appropriate internal controls and procedures to
effectively implement and monitor the investment management process.

**Investment policy**

| 4.5 | The governing body of the pension fund should set forth in a written statement and actively observe
an overall investment policy. |
|-----|------------------------------------------------------------------------------------------------------------------|
| 4.6 | The investment policy should establish clear investment objectives for the pension fund that are
consistent with the retirement income objective of the pension fund and to achieve the best outcome
for the plan members and beneficiaries. The objectives should, therefore, be consistent with the
characteristics of the liabilities of the pension fund and with the acceptable degree of risk for the
pension fund, the plan sponsor and the plan members and beneficiaries. The approach for achieving
those objectives should satisfy the prudent person standard taking into account the need for proper
diversification and risk management, the maturity of the obligations and the liquidity needs of the
pension fund, the balancing of risk and return in a long-term context, and any specific legal
limitations on portfolio allocation. |
| 4.7 | The investment policy should at a minimum identify the strategic asset allocation strategy for the
pension fund (the long-term asset mix over the main investment categories), the overall performance
objectives for the pension fund, and the means of monitoring and, when necessary, modifying
allocations and performance objectives in the light of changing liabilities and market conditions. The
investment policy should also include any broad decisions regarding tactical asset allocation, security
selection and trade execution. |
| 4.8 | The investment policy should address whether, why, to what extent and how more complex and less
transparent classes of assets, and investments in markets or instruments that are subject to limited
governance or regulation, including alternative investments and derivatives will be used. The
investment policy should also address what is the appropriate extent of exposure to counterparty risk
and ensure adequate posting of capital and collateral. |
| 4.9 | A sound investment risk management process that measures and seeks to appropriately control
portfolio risk and to manage the assets and liabilities in a coherent and integrated manner, which
supports the achievement of the investment objectives, should be established. This should be part of
a comprehensive risk management system. |
| 4.10 | The investment policy for pension plans in which members make investment choices should ensure
that an appropriate array of investment options, including a default option, are provided for members
and that members have access to the information necessary to make investment decisions. In
particular, the investment policy should classify the investment options according to the nature, scale |

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10 See also the OECD/IOPS Good Practices on Pension Funds’ Use of Alternative Investments and Derivatives,

11 See also OECD/IOPS Good Practices for Pension Funds’ Risk Management Systems, available at
and extent of the investment risks that members bear. The default investment strategy and default benefit pay-out should balance security and profitability objectives and consider the relative importance of private pension plans in the overall retirement income package. The default investment strategy should also be consistent with the pay-out phase.

4.11 Parties who are responsible for the overall implementation of the investment policy should be identified together with any other significant parties that will be part of the investment management process. In particular, the investment policy should address whether internal or external investment managers will be used, the range of their activities and authority, and the process by which they will be selected and their performance monitored. An investment management agreement should be required if external investment managers are used.

4.12 The governing body of the pension fund or other responsible party should establish procedures and criteria by which it periodically reviews the effectiveness of the investment policy and determines whether there is a need to change the policy, its implementation procedures, the decision-making structure, as well as the responsibilities linked to its design, implementation, and review.

**Portfolio limits and other quantitative requirements**

4.13 The legal provisions may only include maximum levels of investment by category (ceilings) to the extent that they are consistent with and promote the prudential principles of security, profitability, and liquidity pursuant to which assets should be invested. Legal provisions could also similarly include a list of admitted or recommended assets. Within this framework, certain categories of investments may be strictly limited. The legal provisions should not prescribe a minimum level of investment (floors) for any given category of investment, except on an exceptional and temporary basis and for compelling prudential reasons.

4.14 Portfolio limits that inhibit adequate diversification or impede the use of asset-liability matching or other widely-accepted risk management techniques and methodologies should be avoided. The matching of the characteristics of assets and liabilities (like maturity, duration, currencies, etc) is highly beneficial and should not be impeded.

4.15 Where the legal provisions establish maximum levels of investment by category (ceilings), there should be an established procedure for correcting excesses within specified time limits, which provides appropriate flexibility to avoid forced selling of assets under unfavourable market conditions.

4.16 Investment in assets of the plan sponsor, in parties related or affiliated with the governing body of pension fund, the pension entity or pension fund management company is prohibited or strictly limited to a prudent level (e.g. 5 percent of the pension fund assets). When the plan sponsor, the pension entity or the pension fund management company belong to a group, investment in entities belonging to these same groups should also be limited to a prudent level, which may be a slightly higher percentage (e.g. 10 percent of the pension fund assets).

4.17 Investments in assets issued by the same issuer or by issuers belonging to the same group should not expose the pension fund to excessive risk concentration.
4.18 Investment abroad by pension funds should not be prohibited and, among other risks, should take into account the currency matching needs between pension plans assets and liabilities.\(^{12}\)

4.19 The legal provisions should avoid specifying the specific minimum risk rating of issuers - as reported by Credit Rating Agencies - that pension funds can invest in. They may instead make reference to the creditworthiness of issuer and promote that where possible pension funds make their own credit risk assessments.

4.20 Legal provisions and/or guidelines should address the use of more complex and less transparent classes of assets, and investments in markets or instruments that are subject to limited governance or regulation, including alternatives, derivatives and other similar commitments, taking into account both their utility and the risks of their inappropriate use. The use of derivatives that involves the possibility of unlimited commitments should be strictly limited, if not prohibited.

4.21 All legal provisions setting forth quantitative portfolio limits should be regularly assessed to determine whether they are unnecessarily inhibiting the ability of pension fund asset managers to implement optimum investment strategies and amended to the extent necessary.

### Valuation of pension assets

4.22 The legal provisions should establish a proper, transparent and disclosed basis for valuing pension assets.

4.23 Where national rules do not require valuation at current market value or under a fair valuation methodology, it is recommended that the valuation be accompanied by the disclosure of the results that would have been obtained using a current market value or fair valuation methodology.

4.24 The legal provisions should require pension assets to be valued for accounting, reporting, actuarial and funding purposes. Ideally, permitted valuation methodologies for these purposes should be consistent, and where inconsistent, the differences in methodologies should be transparent. In appropriate circumstances, valuation rules may permit methods that reduce short-term volatility of values over time for actuarial and funding purposes.

4.25 Special methods may be needed to value securities in less liquid markets and assets such as real estate. The legal provisions may set out specific methodologies for valuing such assets which should, as far as possible, take into account the risk inherent to illiquid markets.

4.26 The methodology used for valuing pension fund assets should be transparent to the pension fund's governing body, all others involved in the investment management process for the pension fund, and to be disclosed to members and other beneficiaries.

4.i Pension funds should be permitted to borrow only under strict circumstances. The legal provisions should clearly establish the restrictions and the terms for borrowing. Moreover, the value of assets

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\(^{12}\) These limitations on investments abroad should also be consistent with the OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations. Existing restrictions are identified in the document “Portfolio Investment Abroad by Insurance Companies and Private Pension Funds: Widened Application of the OECD Code of Liberalization of Capital Movements and Related Amendments” [C(2002)30].
being purchased using the borrowed funds should be treated as a liability and should not be taken into account when calculating the value of the fund.

Performance assessment

4.ii Pension funds should regularly assess and report their investment performance to members and the supervisor. Performance should also be evaluated over a period of years taking into account the long-term investment horizon, the asset-liability management objectives and the level of risk implied.

4.iii Pension funds should assess their performance against benchmarks that are clear and objective and reflect their investment policy. Both gross and net investment performance, taking into consideration the impacts of taxation, should be assessed against the investment objectives, and the costs of investment management should be measured and reported.

Core Principle 5: Plan design, disclosure and redress

Proper assessment of adequacy of private plans (risks, benefits, contributions, coverage) should be promoted relative to the objectives of the plan, especially when these schemes play a public role, through substitution or substantial complementary function to public schemes, when they are mandatory, and when members face choices in the pension plan (for instance, the level of the contribution rate or the choice of investment option). Adequacy should be evaluated taking into account the various sources of retirement income (tax-and-transfer systems, advance-funded systems, private savings and earnings).

Appropriate disclosure and education should be promoted as regards respective costs and benefits characteristics of pension plans, especially where individual choice is offered. Beneficiaries should be educated on misuse of retirement benefits (in particular in case of lump sum) and adequate preservation of their rights. Disclosure of the fee structure and level, investment options and their associated performance and benefits modalities should be required for all pension plans where such characteristics and choices apply.

Pension plan members should have access to appropriate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient.

Implementing Guidelines for Core Principle 5

Plan design

5.1 The adequacy of the pension plan design should be reviewed in order to determine the suitability of the plan’s parameters (contributions, benefits, etc.) to deliver on undertakings.

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5.2 The institutions responsible for the transfer of contributions to the pension plan should ensure that the amounts are transferred expeditiously. Where participation is mandatory or required as part of automatic enrolment, plan sponsors and pension entities should ensure that new employees are enrolled in the plan on a timely manner.

**Member choice**

5.3 Where members direct their own investments in a private pension plan, they have the right to a number and diversity of investment choices sufficient to permit them to construct an appropriate investment portfolio that as far as possible reflects their own individual circumstances and in the context of the particular pension programme.

5.4 Members should be provided with information regarding investment choices that is standardised, readily comparable and sufficient to permit them to make appropriate choices. At a minimum this information should include disclosure of all charges, fees and expenses associated with each investment choice, as well as information about the riskiness of each choice, portfolio composition and historical investment performance.

5.5 Members managing their own individual accounts have the right to timely and fair execution of their investment decisions and to written confirmation of these transactions. The right (or responsibility) to make and execute investment decisions should not be inhibited by the assessment of any unreasonable charges or fees.

5.6 Members and beneficiaries who are required to manage their own individual accounts should be provided sufficient opportunity to acquire the financial skills or education and other assistance to help them make appropriate decisions in their pension plans. Appropriately designed default options should be established for members that do not make an active investment or benefit payout choice in defined contribution plans where such choice is offered.

5.8 Where members can choose between different benefit payout options, they should be provided with relevant information that is standardised, readily comparable, and sufficient to permit them to make appropriate choices. At a minimum this information should include disclosure of all charges, fees and expenses associated with each choice, as well as information about the extent of protection of each product against longevity, inflation and market risks.

**Disclosure and availability of information**

5.9 Members and beneficiaries in pension plans, as well as potential plan members, should have a legal right to ready access to or disclosure of basic information about the pension plan, including adequate information regarding their rights of access, anticipated contribution and/or benefit accrual rates, vesting schedules, other rights and obligations, investment policy, the names and manner of contacting responsible parties for plan administration and governance, and claims processes or procedures.

5.10 Plan documents, annual accounts, and annual financial and actuarial reports, if not automatically disclosed, should be made readily available to plan members (and to beneficiaries where relevant) for copying for no more than reasonable charge or fee.
<table>
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<tr>
<th>Section</th>
<th>Description</th>
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<tr>
<td>5.11</td>
<td>Members and beneficiaries should be notified in timely fashion if required employer and member contributions have not been made to the pension plan.</td>
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<tr>
<td>5.12</td>
<td>Timely, individualised benefit statement should be provided to each plan member (and to beneficiaries where relevant). The information included on the benefit statement and the frequency of its delivery will depend on the type of pension plan. The information included should enable the plan member to identify current benefit accruals or account balances, eventual investment performance and earnings and/or losses and the extent to which the accruals or account balances are vested. For pension plans with individual accounts, the information should include the date and value of contributions made to the account, investment performance and earnings and/or losses. This information and other similarly personal data should be maintained and delivered in a manner that takes full account of its confidential nature.</td>
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<td>5.13</td>
<td>Individuals should be provided adequate information about the rules associated with the portability of their vested benefit accruals, especially where the transfer of these assets may entail a loss of certain benefits or rights that were associated with the pension plan in which the benefit originated.</td>
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<tr>
<td>5.14</td>
<td>Members of defined contribution plans should have access to information regarding the benefits they are likely to obtain at retirement under specific assumptions. Such assumptions should be reasonable and uncertainty should be disclosed.</td>
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<tr>
<td>5.15</td>
<td>Spouses and dependents must be informed by the pension fund of their rights and obligations under the scheme rules in the event of the death or the breakdown of marriage of a pension plan member, and should be treated in accordance with these rules.</td>
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<tr>
<td>5.16</td>
<td>Disclosure materials should be written in a manner expected to be readily understood by the members and beneficiaries to whom they are directed.</td>
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<td>5.17</td>
<td>Consideration should be given to adequate forms of delivery of disclosure materials, including, mail, delivery at the workplace and via email or websites, where feasible, and appropriate to the nature of the information.</td>
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<tr>
<td>5.18</td>
<td>Amendments or changes to the pension plan that will significantly impact members and beneficiaries, their rights and their benefits must be disclosed to them in timely fashion and in a manner expected to be readily understood by them.</td>
</tr>
<tr>
<td>5.19</td>
<td>Members’ pension plan and personal information should be protected through appropriate control and protection mechanisms. These mechanisms should define the purposes for which the data may be collected, processed, held, used and disclosed (especially to third parties). The mechanisms should also acknowledge the rights of members to be informed about data-sharing, to access data and to obtain the prompt correction and/or deletion of inaccurate, or unlawfully collected or processed data.</td>
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**Entitlement process and rights of redress**

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<th>Section</th>
<th>Description</th>
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<tr>
<td>5.19</td>
<td>Pension entities, providers and authorised agents should have in place mechanisms for complaint handling and redress.</td>
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### Core Principle 6: Supervision

Effective supervision of pension funds and plans must be set up and focus on legal compliance, financial control, actuarial examination and supervision of managers. Appropriate supervisory bodies, properly staffed and funded, should be established in order to conduct off and on site supervision, at least for some categories of funds and in particular when problems are reported. Supervisory bodies should be endowed with appropriate regulatory and supervisory powers over individual plans, in order to prevent irregularities in the distribution, information disclosure and expenses methods.

### Implementing Guidelines for Core Principle 6 (IOPS Principles of Private Pension Supervision)

#### Principle 1: Objectives

*National laws should assign clear and explicit objectives to pension supervisory authorities*

6.1 The principal strategic objectives of the pension supervisory authority should be clearly and publicly specified. They should include a focus on the protection of pension members and beneficiaries’ interests. Objectives should also be directed towards the stability and security of pension funds and plans, the sustainability of the pension sector as a whole, the promotion of good governance and the encouragement of pension provision.

6.2 The responsibilities of the pension supervisor should be clearly and objectively stated, giving a clear mandate and assigning specific duties.

#### Principle 2: Independence

*Pension supervisory authorities should have operational independence*
6.3 The pension supervisory authority should have operational independence from both political 
authorities and commercial interference in the exercise of its functions and powers. 14

6.4 To ensure independence, stability and autonomy are particularly required at the senior director 
level of the pension supervisory authority. The nomination, appointment and removal of the head of the 
pension supervisory authority should be done via explicit procedures and transparent mechanisms. The head 
of the authority is usually appointed for a fixed term (normally between 3-6 years) with subsequent 
reappointment allowed (in order to retain skilled practitioners).

6.5 The pension supervisory authority should also be funded in such a way as to ensure independence 
and there should be a transparent budgetary process.

6.6 Supervisory acts, including the use of enforcement and sanction powers, should be over-ruled only 
by judicial decision, including tribunals with relevant powers, or by parliamentary process.

Principle 3: Adequate Resources

Pension supervisory authorities require adequate financial, human and other resources

6.7 Pension supervisory authorities should be granted adequate staff and access to resources. 15

6.8 The pension supervisory authority should have its own budget sufficient to enable it to conduct 
proportionate, effective and independent supervision. Funding, in part or in full, of the pension supervisory 
authority by supervised pension funds or plans could be considered, provided independence is maintained. 
Where fees are charged, the fee structure should be transparent.

6.9 The pension supervisory authority should hire, train and maintain sufficient staff with high 
professional standards and expertise, including appropriate standards of confidentiality and disclosure.

6.10 The directors, head of the authority and senior management should be suitably qualified, with 
sufficient education, experience, capacity and reputation.

6.11 If its own capacities are insufficient, or for other reasons deemed necessary, the pension 
supervisory authority should have the authority to outsource supervisory tasks to third parties (e.g. auditors, 
actuaries), or to second (‘borrow’) staff with appropriate experience to work internally – though the 
supervisory authority remains responsible for the supervisory process and decisions. Where pension 
supervisory functions are outsourced to third parties, the pension supervisory authority should be able to 
ensure they maintain the required level of confidentiality, assess their competence, monitor their performance 
and ensure their independence from the pension fund or any other related parties in order to avoid conflicts 
of interest. If required, the pension supervisory authority must have the ability to take actions against these

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14 Operational independence is taken to mean that at the day to day operational and decision making level the 
supervisory authority has autonomous management of its activities. At a higher, more policy orientated level, 
supervisory agencies may be subject to national governmental and political influences which are out of their 
control. There may be an intermediate stage where Ministerial approval is required for enforcement actions 
that involve removal or deregistration of an industry participant.

15 For details see IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions 
http://www.iopsweb.org/dataoecd/47/40/43972432.pdf and IOPS Guidelines for the Supervisory Assessment 
of Pension Funds http://www.iopsweb.org/dataoecd/38/47/41042660.pdf?contentId=41042661
third parties either directly or through the appropriate professional body. Decision making and the application of sanctions, within the scope of the pension supervisor, should not be outsourced.

### Principle 4: Adequate Powers

_Pension supervisory authorities should be endowed with the necessary investigatory and enforcement powers to fulfill their functions and achieve their objectives_

6.12. Pension supervisory authorities should be legally empowered to undertake supervision and should be granted adequate powers and the capacity to exercise these powers.  

6.13 The pension supervisory authority should have the power to conduct necessary supervisory functions, according to the nature of the pension system being supervised. Effective supervision of pension funds or plans should focus on legal compliance, financial soundness and control, minimum capital requirements, investment activity, good governance and integrity, actuarial examination, the supervision of pension plan or fund managers, and the provision for adequate disclosure of information to members. Powers should allow for relevant off-site and on-site inspection.

6.14 Pension supervisory authorities should have comprehensive investigatory and enforcement powers. The legal framework that defines conditions and circumstances under which the pension fund supervisor must intervene should be flexible enough to enable the pension supervisor to undertake preventative, protective or punitive actions.

6.15 The pension supervisory authority should have the power to conduct a full investigation when a problem is suspected or observed, obliging funds and other relevant parties (such as asset managers, custodians, auditors) to make documents and information available. Necessary powers include the ability to impose corrective measures and remedial actions if the authority’s orders are not carried out. The scope of the powers may extend to the power to impose administrative sanctions such as fines, to direct management, to revoke licences and to refer matters for criminal prosecution. In some cases, powers may include the ability to issue binding regulation.

6.16 The pension supervisory authority should have clear and well-defined strategic supervisory goals for the use of intervention, enforcement and sanction powers, clearly establishing whether the goal of their action is preventative, protective or punitive and use the appropriate tools and powers accordingly. The supervisory authority should have a coherent, well thought-out policy for deciding on the mix of supervisory tools adopted and the ability to adapt this approach to changing circumstances.

6.17 A sufficient gradation of powers is required to enable the supervisory authority to tailor its response accordingly and sufficiently punitive powers are needed to enforce action.

6.18 Though not all powers may be used ‘actively’, the supervisory authority should still have certain powers either to use in exceptional circumstances – thereby avoiding what could be time consuming delays in dealing with other supervisory authorities – or, by acting as a deterrent, serving to modify the behaviour of supervised entities.

6.19 Pension supervisory authorities should have the power to take exceptional measures, if needed, in times of acute financial and economic difficulty and/or volatility (for example increasing reporting

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16 For details see IOPS Guidelines as above
requirements, strengthening stress tests, or temporarily suspending certain regulatory or supervisory 
requirements which may have a pro-cyclical, adverse impact on financial markets in the short-term).

**Principle 5: Risk-based Supervision**

Pension supervisory authorities should adopt a risk-based approach.

6.20 In order to use their resources efficiently, pension supervisory authorities should adopt a risk-based approach, and a suitable risk-assessment methodology should be established. 18

6.21 The move towards risk-based supervision can be undertaken gradually, combining this technique with more traditional rules-based supervision as the supervisory authority and pension industry develop the necessary expertise.

6.22 The introduction of risk-based supervision should be seen as a movement along a continuum from one extreme of complete reliance on a rules-based system to one where the emphasis of supervision is a function or risk. Risk-based supervision does not mean having no rules or compliance procedures.

6.23 A legal framework allowing suitable discretion in terms of interpretation and exercise of supervisory powers is required, which should also provide pension supervisory authorities with the necessary powers to adopt a risk-based approach.

6.24 Staff reorganization and training, in terms of the philosophy as well as the process of risk-based supervision, should be undertaken as the transition to the new approach takes place.

6.25 The Pension supervisory authority should communicate its risk-based approach to the pension industry, explaining what is expected of them – particularly in relation to risk-management – via guidance notes and possibly providing training.

6.26 Risk-based supervision will require different types of information, which the pension supervisory authority should obtain from existing sources where possible. Where specific supervisory returns are required they should be designed with care and focused on obtaining information regarding the main risks which the pension supervisory authority is concerned with.

6.27 Where quantitative risk assessment tools are used, the models involved should be carefully designed and their limitations fully understood.

6.28 Risk-scoring models should reflect the risk-focus of the pension supervisory authority (which is driven by its objectives and resources), and the net risk of relevant individual entity and systemic risk factors. These factors should be suitably weighted according to the nature of the pension system (including

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17 As outlined in the IOPS Toolkit for Risk-based Supervision (www.iopstoolkit.org), risk-based supervision (RBS) is a structured approach which focuses on the identification of potential risks faced by pension plans or funds and the assessment of the financial and operational factors in place to minimise and mitigate those risks. This process then allows the supervisory authority to direct its resources towards the issues and entities which pose the greatest threat.

18 For further details see IOPS Toolkit for Risk-based Supervision (www.iopstoolkit.org) and IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions http://www.iopsweb.org/dataoecd/47/40/43972432.pdf
the size and number of pension fund overseen), and a risk-score derived from the probability and impact of their occurrence.

Principle 6: Proportionality and Consistency

Pension supervisory authorities should ensure that investigatory and enforcement requirements are proportional to the risks being mitigated and that their actions are consistent.

6.29 A logical connection should be made between the results of the risk assessment undertaken by the pension supervisory authority and its actions (for example through the use of a supervisory response matrix). The remedial actions and if necessary sanctions imposed by the pension supervisory authority should be proportional to the amount of risk posed by the fund to its members and beneficiaries and the pension system as a whole - taking into account the nature, scale, complexity and seriousness of the potential compliance irregularities relating to the relevant party - and should represent the most efficient use of supervisory resources. The long -term nature of pension funds should be taken in consideration and unnecessary pro-cyclical behaviour should be avoided.

6.30 The extent of supervisory demands placed on pension funds or plans and associated parties being supervised should be in accordance with the value expected to be derived. During the decision making process, a balance should be struck between the potential benefits of the supervisory action and the costs and impact on pension fund members and beneficiaries and, where appropriate, plan sponsors.

6.31 Once a problem is identified, a clear and well-defined ‘due process’ should be followed. Due process describes the checks and balances that a supervisory authority should have in place to ensure that supervised entities are treated fairly, consistently and transparently.

6.32 To ensure proportionality, requirements should be set out in legislation, secondary regulation or detailed industry guidance (outlining various circumstances and risk as well as the associated intervention measures). Appropriate documentation, guidance and examples should be regulated or provided to staff.

6.33 Subject to the availability of regulatory and administrative powers and measures, the response should be escalated appropriately to achieve the desired regulatory objectives. Depending on the nature, scale and complexity of the problem detected, a graduated response or exceptional measures should be adopted.

6.34 In fulfilling its supervisory powers, the pension supervisory authority should give pension funds and plans flexibility, where appropriate, in the way they achieve compliance with regulatory requirements.

6.35 Supervisory decisions and intervention should be consistent (both horizontally between pension funds and vertically over time), taking appropriately into account circumstances of each individual case. Supervisors should have well-documented procedures (for example, documentation, training, peer review, specialist team reviews and/or senior oversight) for ensuring that similar decisions are taken in similar circumstances and that these decisions are taken on objective and unbiased grounds.

19 For further details see the IOPS Toolkit for Risk-based Supervision.

20 IOPS Guidelines for the Supervisory Assessment of Pension Funds
http://www.iopsweb.org/dataoecd/38/47/41042660.pdf?contentId=41042661
Principle 7: Consultation and Cooperation

*Pension supervisory authorities should consult with the bodies they are overseeing and cooperate with other supervisory authorities domestically and internationally*

6.36 The pension supervisory authority should consult, as appropriate, with the pensions sector when determining its approach to supervision.\(^{21}\)

6.37 The pension supervisory authority should be empowered to exchange information with other relevant supervisory authorities, subject to legal and confidentiality requirements. This includes cooperation with other authorities or departments involved in pension supervision (for example conduct of business supervisors) both nationally and internationally (particularly where cross-border pensions are involved), as well as with authorities supervising other relevant financial institutions or markets and law enforcement agencies. Cooperation should be for both efficiency purposes (avoiding overlaps and promoting economies of scale and scope) as well as promoting pro-active preventative measures (e.g. tackling financial crime).

6.38 Pension supervisory authorities should ensure that intensified, coordination between financial sectors and internationally takes place when necessary and particularly during periods of economic difficulty and financial system volatility, though confidentiality requirements should be met.

Principle 8: Confidentiality

*Pension supervisory authorities should treat confidential information appropriately*

6.39 The pension supervisor should only release confidential information if permitted by law (with fines or even prison sentences imposed for breaches). Staff should be bound by internal codes of confidentiality, -also after leaving the authority.

6.40 IT systems used by supervisors should include limited access restrictions to protect confidentiality and special care should be taken regarding the security of the supervisory authority’s database for reasons of effective data protection.

6.41 The supervisory authority should publish its policy on how confidential information will be treated. A suitable balance should be struck between conduct of business supervision (where disclosure can be used to influence the behavior of the supervised community), prudential supervision (where confidentiality is important to protect the interests of particular supervised entities), and system integrity, according to the nature of the pension system.

6.42 The pension supervisor, in regard to non-public information, should, when requested by the providing authority, keep information confidential and maintain appropriate safeguards for the protection of confidential information within its possession.

\(^{21}\) For further details see *IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions* http://www.iopsweb.org/dataoecd/47/40/43972432.pdf
6.43 Where unsure of the status of the information, the supervisory authority should treat it as confidential if not publicly available or should check the status with the provider.

6.44 Only if agreed by the providing authority, the receiving supervisory authority may pass on confidential information to other supervisory bodies or law enforcement agencies provided they have legitimate supervisory interests and equivalent confidentiality protection standards.

6.45 Where staff transfer between the supervisory authority and the private sector, mechanisms should exist to ensure the protection of confidential information.

6.46 Third parties to whom the pension supervisory authority has outsourced supervisory tasks should be subject to the same confidentiality requirements as the staff of the pension supervisory authority itself.

**Principle 9: Transparency**

_Pension supervisory authorities should conduct their operations in a transparent manner_

6.47 Pension supervisory authorities should adopt clear, transparent and consistent supervisory processes. The rules and procedures of the pension supervisory authority, and updates thereof, should be published. The pensions supervisory authority should generally operate in a transparent environment and should provide and publish a regular report – at least annually and in a timely manner – on the conduct of its policy, explaining its objectives and describing its performance in pursuing those objectives.

6.48 The pension supervisory authority should be subject to regular audit and reporting requirements which allow for the assessment of how well the authority is fulfilling its responsibilities and ensuring the mandate and functions of the pension supervisory authority cannot be changed on an ad hoc basis.

6.49 Where appropriate, the broad outlines of any supervisory response framework (such as an enforcement pyramid)\(^\text{22}\) should be made public by the supervisory authority, so that its actions are well understood by supervised entities and not unexpected.

6.50 When directing or replacing the management of pension funds or plans pension supervisory authorities should explain and give due notice of the reasons for the supervisory action.\(^\text{23}\)

6.51 A transparent information disclosure mechanism and timely publication of intervention and sanction decisions, where appropriate, should be in place, subject to relevant confidentiality requirements.

6.52 Pension supervisory authorities should provide and publish clear and accurate information for the pension industry and the general public on a regular basis – such as the financial situation of the pension fund industry and observations on major developments in the pension sector. Disclosure will generally be on an aggregate basis, but could also be on individual pension funds, in which case the rules of confidentiality may be particularly relevant.

\(^{22}\) For further details see _IOPS Toolkit for Risk-based Pension Supervision_ www.iopstoolkit.org

\(^{23}\) For further details see _IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions_ http://www.iopsweb.org/dataoecd/47/40/43972432.pdf
Principle 10: Governance

The supervisory authority should adhere to its own good governance practices – including governance codes, internal risk-management systems and performance measurement - and should be accountable

6.53 Supervisory authorities should establish and operate sound governance practices in order to maintain credibility and moral authority to promulgate good practices in the entities under their supervision.24

6.54 Pension supervisory authorities should be overseen by a governing board of a manageable size. The renumeration of the senior executives of the authority may be published for transparency.

6.55 The pension supervisory authority should establish and adhere to a governance code, outlining suitable internal controls, checks and balances, and effective processes for risk and performance management. A code of conduct should be established and enforced in relation to all staff members.

6.56 An internal audit should be considered good practice for pension supervisory authorities, which reviews the consistency and transparency of the decision making process, the effectiveness of risk management practices and the efficiency and propriety in the use of resource. These internal audits should be carried out as part of the legal and functional oversight of the supervisory authorities and their findings should be presented to the governing board, overseeing (parent) ministry or other statutory authority.

6.57 There should be clearly documented procedures for decision-making, with processes for referring decisions up to the appropriate level of seniority, reviewing and documenting decisions.

6.58 For interventions with serious impact there should be some separation between those within the authority proposing interventions and those taking the final decision, so the scope for emergency action is balanced by a review process.

6.59 As part of good governance practices, pension supervisory authorities should monitor their own performance using a range of measures.

6.60 Pension supervisory authorities should be clearly accountable for their general conduct and activity through accountability arrangements, which will vary according to specific country circumstances and which may include accountability to a range of bodies, from parliament or head of state, Ministry of Finance to the members and beneficiaries of pension funds or plans.

6.61 Pension supervisory authorities should be subject to an external audit by a state or independent audit institution.

6.62 Procedures should be in place for the governing body of a pension plan or fund to appeal to the pension supervisory authority or relevant tribunal for decisions taken by the pension supervisory authority

24 Good governance of pension supervisory authorities can be summarized in four categories: independence: requiring clarification of the authority’s responsibilities and powers, processes for appointing its governing board and the ability to secure resources and operate without undue influence; accountability: involving external audits, suitable internal organisation and measuring performance; transparency: ensuring that the authority’s objectives and achievements are understood, and that a consultative relationship with industry is established; integrity: requiring codes of conduct, discretion to apply powers, internal controls and competent staff.
that affect them and which they consider unreasonable or inconsistent with legal provisions. Individual members of staff at the supervisory authority should have indemnity from civil prosecution.\footnote{For further details see \textit{IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions} \url{http://www.iopsweb.org/dataoecd/47/40/43972432.pdf}}
PART II: PRINCIPLES SPECIFIC TO OCCUPATIONAL PLANS

Core Principle 7: Occupational pension plan liabilities, funding rules, winding up, and insurance

Occupational pension plans should be adequately funded. The adequacy of funding should be protected through mechanisms such as funding rules, winding-up provisions, and insurance.

While full-funding exists in principle for occupational defined contribution plans, other types of occupational plans should be subject to minimum funding rules or other mechanisms to ensure adequate funding of pension liabilities. Rules based on winding-up approach may be promoted as a minimum level to complement the ongoing approach. Flexibility can be allowed for temporary limited under-funding under restricted circumstances. Consideration should be given to the development of prudent but flexible requirements for minimum capital/guarantee in pension funds, taking account of the long term nature of their liabilities. Tax and prudential regulations should encourage a prudent level of funding. Private unfunded pay-as-you-go plans at individual company level should generally be prohibited.

Appropriate calculation methods for asset and liabilities valuations, including actuarial techniques and amortisation rules must be set up and based on transparent and comparable standards.

Proper winding-up mechanisms should be put in place. Arrangements (including, where necessary, priority creditors’ rights for pension funds and entities) should be put in place to ensure that contributions owed to the plan by the sponsor are paid in the event of its insolvency, in accordance with national laws.

The need for insolvency insurance and/or other guaranty schemes for occupational pension plans has to be properly evaluated. These mechanisms may be recommended in some cases but in an adequate framework. Recourse to insurance mechanisms (group and reinsurance) may be promoted.

Implementing Guidelines for Core Principle 7

Funding of occupational pension plans

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<tr>
<td>7.1</td>
<td>Occupational pension plans should be adequately funded.</td>
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<tr>
<td>7.2</td>
<td>Occupational defined contribution plans should be funded through the establishment of pension funds, pension insurance contracts the purchase of other authorised retirement savings products from financial institutions, or a combination of these mechanisms.</td>
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<tr>
<td>7.3</td>
<td>Additional protection may be provided through the recognition of creditor rights of the pension fund or entity, or the plan members and beneficiaries against the sponsor where the sponsor bears the risk of the pension promise, or of the plan members and beneficiaries against the pension fund or entity where the pension plan bears the risk of the pension promise, and through insolvency guaranty schemes that protect pension benefits in part or in whole in the case of insolvency of the plan sponsor or the pension fund.</td>
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### Measurement of occupational pension plan liabilities

#### 7.7
Legal provisions should be in place requiring the determination of occupational pension plan liabilities corresponding to the financial commitments or obligations which arise out of the pension arrangement. The ongoing liability is normally defined as the accrued benefit rights of pension plan members and beneficiaries excluding future service but taking into account the projected benefits to be received under estimated retirement, mortality, and early leaver (also known as membership termination or job separation) patterns and whether plan eligibility and vesting requirements are met at the estimated time of retirement, death or leaving service. The termination liability takes into account the pension benefits accrued if the plan itself terminates (winds up) at the time of the valuation. The determination of the liability should follow these principles even where the accrual of further entitlements has ceased. The termination liability will be equal to the costs of extinguishing benefits at that time (for example, by purchasing annuities with an insurance company or payment of lump sums to members) plus costs of termination.

#### 7.8
Any definitions of ongoing and termination liability should reflect any benefit indexation factors prescribed by law or plan terms (unconditional indexation) that apply from membership or plan termination to the annuity starting date and, if relevant, after the annuity starting date, provided that these factors are predictable. These definitions should also reflect benefits that become vested upon plan termination.

#### 7.9
These legal provisions should require that the plan liabilities are assessed using appropriate calculation methods, including actuarial methods and amortisation rules that are consistent with generally recognised actuarial standards. The legal provisions should allow the supervisor to require additional prudence or specify additional requirements if using current standards create an unacceptable risk to member benefits.

#### 7.10
The legal provisions should require the use of prudent funding methods and demographic and economic assumptions which are considered appropriate for the calculation of the pension plan’s liabilities and are consistent with generally recognised actuarial standards. The assumptions would include, among others, the mortality table (representing the assumed level of mortality of plan members and beneficiaries as at the date at which the plan’s liabilities are calculated), future trend in mortality (representing permanent changes in mortality that are assumed to occur after the date at which the liabilities are calculated), retirement and early leaver patterns at different ages (taking into
account the actual retirement and early leaver behaviour of those covered by the plan) and the expected pay-out of benefits.

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<tr>
<th>7.11</th>
<th>The legal provisions (referencing generally recognised actuarial standards and methods) should require the use of prudent discount rates for determining liabilities that are consistent with the methodologies used in the valuation of assets and other economic assumptions. These legal provisions (or the actuarial profession) should provide guidance as to the factors that may be considered in determining the discount rate for ongoing and termination liabilities.</th>
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<th>7.12</th>
<th>The calculation of pension liabilities should take place at least once every three years, while a certification or report of the adjusted development of the liabilities and changes in risks covered should be required for the intervening years. All actuarial valuations should be carried out by an actuary, or by another equivalent specialist, who is required to meet suitability requirements related to competence in the field of pensions and integrity.</th>
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<th>7.13</th>
<th>As part of the process of defining its funding policy, the governing body of the pension fund or entity should seek the advice of the actuary or other relevant specialist regarding the assumptions and methods to be used in calculating pension liabilities and funding levels. This advice should be provided in a clear and timely fashion.</th>
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### Funding requirements for occupational defined benefit plans and treatment of any surplus or deficits

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<tr>
<th>7.14</th>
<th>The legal provisions require the identification and maintenance of a level of assets that should be at least equal to the target funding level after taking into account the costs of operation of the plan. The targeted funding level may be based on the termination or the ongoing liability, depending on the funding objectives. It should also take account of the plan sponsor’s ability and commitment to increase contributions to the pension plan in situations of underfunding, the possibility of benefit adjustments or changes in retirement ages in response to underfunding, as well as the link between the pension plan’s assets and its liabilities. The funding target should balance the need for benefit security and the affordability of pension provision.</th>
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<th>7.15</th>
<th>Approved funding methods (also known as actuarial cost methods) for the ongoing liability should reduce the risk of sharply rising cost curves over time by spreading the actuarial (or accrued) liability over the expected career path of plan members. In order to ensure adequate funding levels over time, ongoing funding methods should take into account factors such as future salary growth, mortality, disability, early leaver (separation) and other relevant events.</th>
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<th>7.16</th>
<th>In addition to normal costs (the present value of benefits that have accrued on behalf of the members during the valuation period), contributions should reflect other factors, including, to the extent appropriate to the accrual of benefits under the plan, work before a plan’s inception, plan amendments that increase liability attributable to past service, deviations of actual results from assumptions (experience gains and losses), and the effects of changes in assumptions (actuarial gains and losses). These supplemental costs should be amortised in a manner that appropriately balances the need for adequate funding with the possible consequences of volatile contribution requirements. For example, supplemental costs might be amortised as even currency units or at a minimum as even percentages of payroll. Amortisation periods should in general not be longer than the expected future period of service of active plan participants.</th>
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### 7.17
The legal provisions should not prevent funding methods that seek to dampen the short term volatility in firms’ funding contributions. Prudent amortisation of supplemental costs over time might help achieve a smoother contribution schedule and more stable funding levels.

### 7.18
The legal provisions should set out acceptable mechanisms and recovery periods for correcting situations of over or underfunding, taking into account the sources of such over or underfunding and the plan’s funding objective. The legal provisions should clearly describe the restrictive circumstances, if any, under which reprieve from contribution obligations may be possible or contributions must be accelerated.

### 7.19
Acceptable mechanisms for correcting situations of over or underfunding should include promoting a countercyclical approach, providing incentives to build reserves against future market downturns. They should also take market volatility into account when limiting contributions (or their tax deductibility) as a certain funding level is reached. Tax regulations should not discourage the build-up of sufficient reserves to withstand adverse market conditions and should avoid restricting the full funding of the ongoing or termination liability.

### 7.20
Funding requirements should take into account the extent to which the pension fund or entity itself as opposed to the plan sponsor or the plan members is directly responsible partly or wholly for the commitments represented by the pension liabilities. Where the pension entity itself underwrites the pension liability without any commitment from the plan sponsor or members to make good on any deficit, the funding objective should be require additional assets to be held over and above those necessary to fully fund the accrued pension liabilities if the plan is terminated and benefits are extinguished. This capital requirement or solvency margin should be determined taking into account all relevant and material categories of risk, both the assets held and the liabilities due that are the responsibility of the pension plan, costs of operation of the plan, risk mitigation measures in place and the extent to which benefits may be reduced.

### Winding up of occupational pension plans

#### 7.21
The allocation of plan assets and the responsibility for underfunding in the event of termination of an occupational pension plan and the extinguishing of the plan’s obligation to pay benefits to members and beneficiaries should be clearly established. In the event that assets exceed the benefits as set out in the governing documents of the plan and the costs of terminating the plan, there should be rules in place as to the allocation of the funding excess or surplus. In the event that assets are insufficient to cover benefits, there should be rules concerning the benefit payment allocation.

#### 7.22
Whenever the sponsor bears the risk of the pension promise, the creditor rights of pension plan members and beneficiaries (either directly, via the pension plan, or, where relevant, via insolvency guaranty schemes) should be recognised in the case of bankruptcy of the plan sponsor. Priority rights relative to other creditors should be required for at least due and unpaid contributions.
**Core Principle 8: Access, vesting, and portability of occupational pension plans**

Non-discriminatory access should be granted to private pensions plans. Regulation should aim at avoiding exclusions based on age, salary, gender, period of service, terms of employment, part-time employment, and civil status. It should also promote the protection of vested rights and proper entitlement process, as regard to contributions from both employees and employers. Policies for indexation should be encouraged. Portability of pensions rights is essential when job mobility is promoted. Mechanisms for the protection of beneficiaries in case of early departure, especially when membership is not voluntary, should be encouraged.

**Implementing Guidelines for Core Principle 8**

**Access to plan participation, equal treatment and entitlements under occupational pension plans**

| 8.1 | Employees should have non-discriminatory access to the private pension plan established by their employer. Specifically, regulation should aim at avoiding exclusions from plan participation that are based on non-economic criteria, such as age, gender, marital status or nationality. In the case of mandatory pension plans, those plans that serve as the primary means of providing retirement income, and those that are significantly subsidised by the state, regulation should also aim at avoiding other unreasonable exclusions from plan participation, including exclusions based on salary, periods of service and terms of employment, (e.g., by distinguishing between part-time and full-time employees or those employed on an at-will and fixed-term basis). The legal provisions should also facilitate the enrolment of employees in occupational pension arrangements. Regulation of voluntary and supplementary pension plans also should aim towards similarly broad access and coverage, taking into account factors including the voluntary nature of the arrangement, the unique needs of the employer establishing the pension plan, and the adequacy of other pension benefits. |
| 8.2 | Employees should be equally treated under the plan rules with respect to portability rights, disclosure requirements, governance and redress mechanisms, and other rights associated with the plan. |
| 8.3 | If establishing rules for benefit levels and accrual or contribution rates, regulators may take into account the extent of integration of occupational plans with other public or mandated sources of retirement income and the adequacy of the totality of the benefits provided. |
| 8.4 | Employees should be protected from retaliatory actions and threats of retaliation by their employer or pension plan representatives with respect to pension benefits and the exercising of rights under a pension plan. For example, they should be protected from terminations of employment carried out with the intent to prevent the vesting of an accrued benefit under the pension plan. Similarly, individuals exercising their rights under a pension plan, including but not limited to their filing of a claim or appeal or their initiation of administrative or judicial action, should be protected from retaliatory action, such as termination of employment, suspension, discipline, fine or any other type of discrimination. |
| 8.5 | Individuals should not face any non-economic conditions to join a personal pension plan. Possible economic conditions for plan membership may include a minimum contribution level or working in a specific sector or company (in the case of group personal pension plans). |
Benefit accrual and vesting rights in occupational plans

8.6 Regulations should prevent the retroactive reduction of the obligations of a pension plan to members and require that plan members obtain timely notice regarding any reduction in the rate of future benefit accruals in the pension plan.

8.7 Accrued benefits should vest immediately or after a period of employment with the employer sponsoring the plan that is reasonable in light of average employee tenure. Benefits derived from member contributions to the pension plan should be immediately vested.

8.8 Practices that substantially undermine or eviscerate benefit accrual and vesting rights should be prohibited.

8.9 Vested benefits of those individuals who have severed employment with an employer should be protected and not subject to forfeiture, regardless of reasons for severance, except in the limited case of dismissals resulting from acts of gross malfeasance that are clearly related to the plan.

8.10 Vested benefits should be protected from the creditors of the plan sponsor and plan service providers (including any financial institutions or other entities managing the pension plan or plan assets or acting as a custodian of pension fund assets associated with the plan) – at a minimum by the legal separation of plan assets. Vested benefits also should be protected when the plan sponsor or a plan service provider changes ownership due to merger, acquisition, sale, or other corporate transaction, or files for bankruptcy. Similarly, the extent to which vested benefits are protected from the creditors of individual plan members and beneficiaries should be addressed.

Pension portability and rights of early leavers

8.11 Individuals who are changing jobs should be able, upon request, to move the value of their vested account balance in an occupational defined contribution plan from their former employer’s pension plan either to the plan of their current employer (where permitted) or to a similar, tax-protected environment provided by an alternative financial instrument or institution. Where feasible, a similar portability right also should be available to individuals in defined benefit plans. There may be diminished need for individual portability rights where there are industry-wide and other types of multiple-employer pension plans.

8.12 Individuals should have the right to timely execution of the request to transfer the value of their vested benefit accruals.

8.13 With respect to occupational defined benefit pension plan benefits, where portability is feasible, the actuarial and interest rate assumptions used in valuing an individual’s vested benefit accrual that is to be transferred should be fair and reasonable. These assumptions should be made readily available to the individual transferring the value of his accrued benefit.

8.14 Portability rights should be available to members of an occupational pension plan when they separate from service with an employer, regardless of whether the separation is voluntarily, involuntarily or by mutual agreement.
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<tr>
<td>8.15</td>
<td>Portability rights should not be inhibited by the assessment of unreasonable charges or fees, such as excessive transaction charges or excessive back-end fees. At a minimum, members and beneficiaries should be informed of the presence of any such charges or fees.</td>
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<tr>
<td>8.16</td>
<td>Plan members should not be required to exercise their portability rights, with the possible exception of limited and defined circumstances, such as the winding-up of the pension plan or a vested benefit that is a very small amount. Generally, members should be permitted to leave their vested benefits in the pension plan of their former employer.</td>
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<td>8.ii</td>
<td>In DC plans members should be granted the possibility to consolidate their savings from different plans.</td>
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PART III: PRINCIPLES SPECIFIC TO PERSONAL PENSION PLANS

Core Principle 9: Funding of personal pension plans, wind-up and insolvency

Personal pension plans should generally be fully-funded at all times, in accordance with the relevant regulation applicable to the pension entity.

The merger of pension entities and the withdrawal of pension entities from the personal pension market should be subject to specific requirements concerning the continuity of existing contracts.

There should be proceedings in place for dealing with the insolvency of pension entities. Priority should be given to the protection of members’ pension rights or accumulated savings. Insolvency proceedings should also minimise disruption to the timely provision of benefits to members. Consideration should be given to the establishment of guarantee arrangements to protect pension rights in case of insolvency of the pension entity.

Implementing Guidelines for Core Principle 9

Funding of personal pension plans

| 9.1 | Personal pension plans should generally be fully-funded at all times. Such plans may be funded through the establishment of pension funds, pension insurance contracts or the purchase of other authorised retirement savings products from financial institutions, such as individual retirement accounts held in the form of brokerage accounts. |
| 9.2 | Pension entities providing personal pension plans via pension funds should be subject to capital adequacy or solvency requirements so that they can absorb unforeseen losses stemming from different risks (operational, liquidity, and - in the case of plans with guarantees - financial/actuarial). In the case of plans financed via pension insurance contracts or otherwise, the relevant financial regulatory framework should apply. |
| 9.3 | A total balance sheet approach should be used in the assessment of solvency of pension entities to recognise the interdependence between assets, liabilities, regulatory capital requirements and capital resources and to require that risks are appropriately recognised. |
| 9.4 | In the case of pension entities offering minimum return or benefit guarantees in personal pension plans, the solvency regulatory framework in place should follow international insurance standards. |

Merger, wind-up and insolvency

| 9.5 | Requirements should be in place in case of mergers or sales of pension entities to ensure the protection of rights and accumulated savings and the safe and speedy transfer of assets and records between entities. |

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26 See the IAIS Insurance Core Principles.
9.6 The procedures for the winding-up and exit of a pension entity from the market should be clearly set out in legislation. A high legal priority should be given to the protection of the rights and entitlements of members. The procedures should aim at minimising the disruption to the timely provision of benefits to members.

9.7 The bodies responsible for dealing with the insolvency of a pension entity, including the possible restructuring or portfolio transfer, and winding-up of the pension entity should be clearly set out in legislation.

9.8 The legislation should provide for the determination of the point at which it is no longer permissible for a pension entity insurer to continue its business.

**Core Principle 10: Equal treatment, business conduct, competition and portability of personal pension plans**

There should not be any restrictions on access to personal pension plans. Members of personal pension plans should be treated equally and fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

Pension entities and authorised agents operating in the personal pensions market should have as an objective, to work in the best interest of their customers and be responsible for upholding financial consumer protection. Pension entities should also be responsible and accountable for the actions of their authorised agents.

Generally, members of personal pension plans should have the right to full portability. Nationally and internationally competitive markets should be promoted in personal pension provision in order to provide consumers with greater choice amongst financial services and create competitive pressure on providers to lower costs, create value for money, and maintain high service quality. Consumers should be able to search, compare and, where appropriate, switch between products and providers easily and at reasonable and disclosed costs.

**Implementing Guidelines for Core Principle 10**

**Equal and fair treatment and business conduct**

10.2 Any individual should be able to join a personal pension plan. Personal pension plan members should be treated equally, honestly and fairly with respect to all rights associated with the plan, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

10.3 Pension entities and their intermediaries should have a fiduciary duty of loyalty, namely to act in the customer’s best interest. They should also be subject to a duty of care, namely, to act with due skill, care and diligence when dealing with customers.
Pension entities and their intermediaries should establish and implement policies and procedures on the fair treatment of customers that are an integral part of their business culture.

Pension entities should take into account the interests of different types of customers when developing and marketing insurance products.

Pension entities and their intermediaries should promote personal pension plans in a manner that is clear, fair and not misleading.

Pension entities and their intermediaries should ensure that, where customers receive advice before concluding a personal pension plan contract, such advice is appropriate, taking into account the customer’s disclosed circumstances. They should also ensure that any conflicts of interest are properly addressed and, where appropriate, avoided.

Competition and portability

Competition between pension entities offering personal pension plans should be promoted, with a view to lower management costs and fees down and increase quality of service provided.

Personal pension plans should be fully portable. Switching between providers should not be subject to unreasonable fees or charges.
## ANNEX 2

### LIST OF DELEGATES’ COMMENTS

Delegates’ comments received at the WPPP, Paris, 2-3 June 2013

<table>
<thead>
<tr>
<th>Section/N° of CP or IG</th>
<th>Country</th>
<th>Suggestion for improvement</th>
<th>Action taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope of application</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Canada</td>
<td></td>
<td>Add a footnote referring to the glossary at the end and add definitions clarifying the definitions of personal and occupational plans.</td>
<td>Amendment made.</td>
</tr>
<tr>
<td>CP1</td>
<td>Chile</td>
<td>Add a reference to the long term focus.</td>
<td>Amendment made. A phrase has been added to this effect in paragraph 1 of the CP.</td>
</tr>
<tr>
<td>3.2</td>
<td>Chile</td>
<td>Need to emphasize that the profitability goals of a pension fund are well aligned with the objects of maximising benefits.</td>
<td>Amendment made. A phrase to this extent has been added to IG 3.2.</td>
</tr>
<tr>
<td>1.2</td>
<td>World Bank</td>
<td>Should add a text to safeguard rights under government policy reversals.</td>
<td>Amendment not made. The issue of protection of member rights in personal pension plans is addressed in IG 9.6.</td>
</tr>
<tr>
<td>2.1</td>
<td>Chile</td>
<td>Emphasize fair competition in the licencing process.</td>
<td>Amendment made. The phrase has been changed to “Licensing and registration requirements are clear, transparent, and public. Licensing and registration requirements should be objective, fair and promote a competitive market.”</td>
</tr>
<tr>
<td>3.5</td>
<td>Chile</td>
<td>Add a phrase to ensure that the governing body oversees any remuneration to external service providers.</td>
<td>Amendment made. “The governing body should oversee remuneration for any delegated responsibilities to ensure alignment with the objectives of the pension fund.” has been added.</td>
</tr>
</tbody>
</table>
Delegates’ comments received through written procedure following the WPPP Paris, 2-3 June 2013

<table>
<thead>
<tr>
<th>Section/N° of CP</th>
<th>Country/Organization</th>
<th>Suggestion for improvement</th>
<th>Action taken and comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Comments</td>
<td>Netherlands</td>
<td>The core principles should be less detailed so as to not interfere with EU legislation. The core principles should not hinder the further development of occupational pensions in countries.</td>
<td>Amendment not made. The Core principles are recommendations to improve the private pensions systems in countries and an instrument used to evaluate them. Comments given to widen the scope of the principles have been taken into consideration where appropriate.</td>
</tr>
<tr>
<td></td>
<td>United Kingdom</td>
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<tr>
<td>Preamble</td>
<td>Australia</td>
<td>Use the terms “must” and “may” rather than “should”</td>
<td>Amendment not made. The WPPP in June was in agreement to use “should” in order to strengthen the value and importance of the recommendation.</td>
</tr>
<tr>
<td>Background</td>
<td>Czech Republic</td>
<td>Clarify the scope of the principles especially in relation to footnote 3.</td>
<td>Amendment made. The term “funded” has been added to clarify that all the core principles apply to funded schemes and not necessarily to book reserves schemes which is now more clearly set out by footnote 5.</td>
</tr>
<tr>
<td></td>
<td>Netherlands</td>
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<tr>
<td></td>
<td>Germany</td>
<td>Amend footnote 3 to read “EU countries may choose not to apply Core Principles 2 to 8”</td>
<td></td>
</tr>
<tr>
<td>Scope of application</td>
<td>Hungary</td>
<td>Clarify the definitions of personal and occupational plans to further the understanding of why different principles are applied to different types of plans.</td>
<td>Amendment made. Definitions for this have been added to the Glossary at the end of the document.</td>
</tr>
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<td></td>
<td>IAA</td>
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<tr>
<td>Scope of application</td>
<td>Germany</td>
<td>Do not agree with the extension of the principles to personal plans as these are often under different legislation. Part one needs to further distinguish between occupational and personal plans.</td>
<td>Amendment not made. The Core Principles are being revised so that they are better adapted to the different types of private pension provision being in OECD and partner countries. The</td>
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<td>Hungary</td>
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<td>Pensions-Europe</td>
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<tr>
<td><strong>Scope of application</strong></td>
<td><strong>Pensions-Europe</strong></td>
<td><strong>United Kingdom</strong></td>
<td><strong>Amendment</strong></td>
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<tr>
<td><strong>United Kingdom</strong></td>
<td></td>
<td>scope of the application of the principles has been clarified in the Preamble and Scope of Application.</td>
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</tr>
<tr>
<td><strong>The word “consumers” instead of “beneficiaries” should be used for personal plans.</strong></td>
<td><strong>Amendment not made.</strong> According to the agreed OECD definitions the term “beneficiaries” applies to an individual who is entitled to a benefit (including the plan members (active and inactive) and dependants) in all types of plans.</td>
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<tr>
<td><strong>Clarify that the CP1 refers to private pension systems in the first sentence.</strong></td>
<td><strong>Amendment made.</strong></td>
<td></td>
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<tr>
<td><strong>Remove the added text suggesting the countries should develop clear quantitative and qualitative targets on adequacy of pensions.</strong></td>
<td><strong>Amendment made.</strong></td>
<td></td>
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<tr>
<td><strong>Also remove “the breadth of coverage expected for private pensions”</strong></td>
<td><strong>It is important to consider the objectives concerning the coverage for private pensions. The sentence has been amended and now reads “to balance the priorities of sufficient coverage, and the provision of efficient, sustainable, secure and adequate pensions in the short and long term.”</strong></td>
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<tr>
<td><strong>Clarify that the prime objective of the regulatory and supervisory framework is to ensure the protection of members and not to contribute to the stability of the economy</strong></td>
<td><strong>Amendment made.</strong> The sentence has been redrafted to read “Regulatory provisions for private pensions should be enforced in a comprehensive, dynamic and flexible way (taking into account the complexity of the schemes, the environment in which the pension system operates and the stability of the economy as a whole) in order to primarily ensure the protection of pensions plan members and beneficiaries...”</td>
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<tr>
<td><strong>Delete “advance funded” in paragraph 2.</strong></td>
<td><strong>Amendment made.</strong> The word “advance” has been deleted. Funded has been retained since the paragraph refers to the impact of developing funded systems as a means to</td>
<td></td>
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</tr>
<tr>
<td>CP1</td>
<td>Germany</td>
<td>Delete “The fair competition should be of benefit to the consumers and allow for the development of adequate private pensions markets.”</td>
<td>Amendment not made. The sentence has not been deleted as it is important to clarify that fair competition is to the advantage of the members. “Consumers” has been replaced with “members and beneficiaries” as suggested.</td>
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<tr>
<td>CP1</td>
<td>Germany</td>
<td>Paragraph 4 should not make reference to supervision and focus on regulation as supervision is covered by IOPS.</td>
<td>Amendment made. The specific reference to supervision is left to CP 6 and the focus is kept on regulation here. Please also note that the Implementing Guidelines of CP 6 are the same as the IOPS Principles.</td>
</tr>
<tr>
<td>CP1</td>
<td>Germany</td>
<td>Delete the last sentence “The system parameters and operation should also be appropriate given the availability of economic, demographic and personal data.”</td>
<td>Amendment made. The issue is taken up in IG 1.ii. Given the level of detail of the text it fits better under the IG rather than the CP.</td>
</tr>
<tr>
<td>1.3</td>
<td>Germany</td>
<td>Delete “and the implementation of long-term savings and investment plans”</td>
<td>Amendment made. “including the development of new financial instruments and new markets such as inflation-indexed markets and the improved functioning of retirement annuity markets” has been added here.</td>
</tr>
<tr>
<td>1.6</td>
<td>Germany</td>
<td>Remove reference to legal provisions that encourage value for money as it is difficult to formulate and implement such a legal provision</td>
<td>Amendment made. The phrase value for money has been removed. The implementing guideline also already makes a reference to the need for promoting efficiency and prudent management which would include giving value for money.</td>
</tr>
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<td></td>
<td>Hungary</td>
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<tr>
<td>1.ii</td>
<td>Germany</td>
<td>Delete guideline.</td>
<td>This guideline is important to promote the availability of data to design and implement private pension plans according to their</td>
</tr>
<tr>
<td>Section</td>
<td>Country</td>
<td>Amendment Made</td>
<td>Details</td>
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<tr>
<td>2.i 2.1</td>
<td>Germany</td>
<td>Amendment not made.</td>
<td>The word registration broadens the scope of the IG given different practices in different countries. The phrase “and/or” has been added where appropriate.</td>
</tr>
<tr>
<td>2.i</td>
<td>United Kingdom</td>
<td>Amendment made.</td>
<td>The phrase “pension entity” has been added in order to widen the scope of the IG.</td>
</tr>
<tr>
<td>2.16</td>
<td>Canada</td>
<td>Amendment made.</td>
<td>The word “involuntary” has been deleted as it was superfluous.</td>
</tr>
<tr>
<td>2.ii</td>
<td>Germany</td>
<td>Amendment not made.</td>
<td>It is important to specify the period of time that a licencing decision process can take.</td>
</tr>
<tr>
<td>2.iv 2.v</td>
<td>Germany</td>
<td>Amendment not made.</td>
<td>The Core Principles also extend to countries that are not under the jurisdiction of EU directives.</td>
</tr>
<tr>
<td>CP 3</td>
<td>Germany</td>
<td>Amendment made.</td>
<td></td>
</tr>
<tr>
<td>3.5</td>
<td>Netherlands</td>
<td>Amendment not made.</td>
<td>The implementing guideline has been amended to instead specify when tasks “should” be delegated.</td>
</tr>
<tr>
<td>3.6</td>
<td>Netherlands</td>
<td>Amendment made.</td>
<td></td>
</tr>
<tr>
<td>CP4</td>
<td>Hungary</td>
<td>Amendment made.</td>
<td>The issue of outsourcing is covered under the delegation of duties in the implementing guidelines (see 4.2). A reference has been made to the OECD/IOPS Good Practices for Pension Funds’ Risk Management Systems which also cover outsourcing.</td>
</tr>
<tr>
<td>4.1</td>
<td>United Kingdom</td>
<td>4.6 has been changed to: “The investment policy should establish clear investment</td>
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</tbody>
</table>
objectives for the pension fund that are consistent with the retirement income objective of the pension fund and to achieve the best outcome for the plan members and beneficiaries. The objectives should, therefore, be consistent with the characteristics of the liabilities of the pension fund and with the acceptable degree of risk for the pension fund, the plan sponsor and the plan members and beneficiaries.”

| 4.2 | United Kingdom | “and to be satisfied that the advice is objective and sufficient to enable them to make such decisions” may be superfluous. | Amendment made. In order to clarify the purpose of the phrase it has been changed to “but the governing body should have the expertise to fully understand the advice and challenge it if necessary”. This is in accordance with the OECD/IOPS Good Practices for Pension Funds’ Risk Management Systems |

| 4.6 | Germany | Delete “the balancing of risk and return in a long-term context” | Amendment not made. Saving for retirement is for the long-haul. Therefore, it is important that this guideline also indicates that the investment objectives should also have a long term focus. |

| 4.8 | Finland | The issue of pension funds pledging assets as collateral when investing in more complex instruments needs to be addressed. | Amendment made. “The investment policy should also address what is the appropriate extent of exposure to counterparty risk and ensure adequate posting of capital and collateral.” |

| 4.10 | Australia | Pension funds should not have to specify a default option where a choice of investments options is available to members, especially if employers do so. | Amendment not made. Where an investment choice is available to members there needs to be a fall-back option for those members that do not make a choice. The guideline does not specify who should define the default. |

<p>| 4.13 | Netherlands | Delete “Legal provisions could also similarly include a list of admitted or recommended assets.” In order to avoid advocating too much political steering of investment strategies, | Amendment not made. The sentence was a part of the Core principles originally agreed by the Council. The suggested |
| 4.16  | United Kingdom | Delete reference to the limits for investment in parties or include it concretely in the guideline. | Amendment not made. The references were a part of the Core Principles originally agreed by the Council. The suggested change makes the text more generic. |
| 4.20  | Canada         | Alter the first sentence to read: “Legal provisions or guidance should address the use of more complex and less transparent classes of assets.” | Amendment made. “Legal provisions and/or guidelines should address the use of more complex and less transparent classes of assets.” |
| 4.26  | Germany        | Delete the references to disclosing information and reporting to members and beneficiaries. | Amendment not made. The G20/OECD high-level principles for financial consumer protection and the OECD recommendation on good practices for financial education relating to private pensions and awareness clearly argue in favour of enhanced disclosure to members and beneficiaries. |
| 4.i   | Finland        | The issue of borrowing by pension funds should be treated in the Core Principles. | Amendment made. IG 4.i has been added stating “Pension funds should be permitted to borrow only under strict circumstances. The legal provisions should clearly establish the restrictions and the terms for borrowing. Moreover, the value of assets being purchased using the borrowed funds should be treated as a liability and should not be taken into account when calculating the value of the fund.” |
| 4.iii | Australia      | A reference to the impact of taxation policies should be made here. Add “The performance of pension funds should be assessed against its pension ambition” | Amendment made. “The performance of pension funds should be assessed against its investment objectives” has been added. |
|       | Netherlands    |                                           |                                           |
| CP5   | Australia      | The reference to assessing adequacy can be difficult in the context of DC schemes where the focus of many funds is acting in the best interest of members rather than delivering against a specific measure of adequacy. | Amendment not made. Given that the assessment of adequacy as stated in the CP pertains to risks, benefits, contributions and coverage, this can apply to DC plans as well. |</p>
<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Country</th>
<th>Original Text</th>
<th>Amendment Made</th>
<th>New Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Delete the last sentence in paragraph 1 as data protection laws can make it difficult to evaluate adequacy taking into consideration all different types of income.</td>
<td>Amendment made. The first sentence has been amended to “Proper assessment of adequacy of private plans (risks, benefits, coverage) should be promoted relative to the objectives of the plan.”</td>
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</tr>
<tr>
<td>CP5</td>
<td>Germany</td>
<td>Delete “complaints handling” in last paragraph because under EU-regulation member States do not have to provide for Alternative Dispute Resolution mechanisms in occupational plans</td>
<td>Amendment not made. The Core principles are recommendations that strive to set a standard above minimum requirements based on good practice.</td>
<td></td>
</tr>
<tr>
<td>5.1 Australia</td>
<td>Replace “to meet retirement income goals” with “deliver on their undertaking”.</td>
<td>Amendment made.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>Delete IG The IG does not take into account that plan design may be pursuant to law.</td>
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<tr>
<td>United Kingdom</td>
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<tr>
<td>5.2 Germany</td>
<td>Delete “The institutions responsible for the transfer of contributions to the pension plan should ensure that the amounts are transferred expeditiously.”</td>
<td>Amendment not made. It is important to ensure timeliness in the transfer of contributions.</td>
<td></td>
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</tr>
<tr>
<td>5.3 Australia</td>
<td>Soften the language about giving members enough choice to construct a portfolio fitting their own circumstances since pension funds may not be able to be aware of all the individual circumstances of their members.</td>
<td>In order to soften the language “in light of their individual circumstances” has been replaced with “that as far as possible reflects their own individual circumstances” since it is still important that enough investment choices are offered so that individual preferences can be broadly met.</td>
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</tr>
<tr>
<td>5.4 Germany</td>
<td>Delete “At a minimum this information should include disclosure of all charges, fees and expenses associated with each investment choice, as well as information about the riskiness of each choice, portfolio composition and historical investment performance.”</td>
<td>Amendment not made. The G20/OECD high-level principles for financial consumer protection and the OECD recommendation on good practices for financial education relating to private pensions clearly argue in favour of enhanced disclosure to members and beneficiaries.</td>
<td></td>
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</tr>
<tr>
<td>5.7 United Kingdom</td>
<td>5.7 is repetitive as compared with 4.10</td>
<td>Amendment made.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.8</td>
<td>Germany</td>
<td>Delete “At a minimum this information should include disclosure of all charges, fees and expenses associated with each choice, as well as information about the extent of protection of each product against longevity, inflation and market risks.”</td>
<td>The first phrase of 5.7 has been moved to 5.6 and the last two have been added to 4.10 to take into account the balance between the default and the pay-out phase. Amendment not made. The G20/OECD high-level principles for financial consumer protection and the recommendation on principles and good practices for financial education and awareness clearly argue in favour of enhanced disclosure to members and beneficiaries.</td>
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</tr>
<tr>
<td>5.12</td>
<td>Germany</td>
<td>Delete “For pension plans with individual accounts, the information should include the date and value of contributions made to the account, investment performance and earnings and/or losses.”</td>
<td>Amendment not made. The text was a part of the Core Principles originally agreed by the Council. The suggested change makes the text more generic.</td>
<td></td>
</tr>
<tr>
<td>CP6</td>
<td>Canada</td>
<td>Clarify what is meant by mis-selling in the last sentence</td>
<td>Amendment made. The text has been re-drafted to better reflect the text of the IOPS Principles of Supervision and now states “Supervisory bodies should be endowed with appropriate regulatory and supervisory powers over individual plans, in order to prevent irregularities in the distribution, information disclosure, and expenses methods.”</td>
<td></td>
</tr>
<tr>
<td>CP7</td>
<td>IAA</td>
<td>Replace “capital/guarantee” with “levels of assets or insurance guaranty arrangements” in paragraph 3 In paragraph 4, replace ‘funds’ with “plans” to widen the scope.</td>
<td>The reference to “minimum capital/guarantee in pension funds” cannot be replaced accurately by the term “minimum levels of assets or insurance guaranty arrangements”</td>
<td></td>
</tr>
<tr>
<td>CP7</td>
<td>Germany</td>
<td>Delete “Private unfunded pay-as-you-go plans at individual company level should generally be prohibited.”</td>
<td>Amendment not made. The text was a part of the Core Principles originally agreed by the Council. The suggested change makes the text more generic.</td>
<td></td>
</tr>
<tr>
<td>7.1</td>
<td>IAA</td>
<td>Add “The liabilities are determined according to the nature of the benefits provided. The level of assets held that is deemed to be adequate is a matter”</td>
<td>Amendment not made. In order to keep a broad scope in determining the adequacy of funding, this guideline has not been changed. Comments regarding the actuarial calculations</td>
<td></td>
</tr>
<tr>
<td>7.3</td>
<td>IAA</td>
<td>Amend text according to suggested changes to further clarify the implications of the IG. Amendment made.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.4</td>
<td>IAA</td>
<td>Add “or on a pay-as-you-go basis” to the end of the second sentence. Amendment made.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.6</td>
<td>IAA</td>
<td>Replace “sources of funding, the actuarial method to be used, and the mechanisms for fulfilling legal funding requirements” with “funding objective, the level of target funding on an on-going and termination liability basis, the sources and mechanisms for fulfilling target funding, the level of actual funding, and how quickly target funding is projected to be achieved. The policy should be communicated to plan members.” Amendment made.</td>
<td></td>
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</tr>
<tr>
<td>7.7</td>
<td>IAA</td>
<td>Further clarify the parameters for calculating the on-going liabilities (also where accrual of new entitlements has ceased) and termination liabilities. Amendment made. The text has been altered to reflect the drafting suggestions made by the IAA.</td>
<td></td>
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</tr>
<tr>
<td>7.8</td>
<td>IAA</td>
<td>Delete “These definitions should also reflect benefits that become vested upon plan termination.” Amendment not made. The sentence was a part of the Core Principles originally agreed by the Council. The suggested change makes the text more generic.</td>
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</tr>
<tr>
<td>7.10</td>
<td>IAA</td>
<td>Add “prudent funding methods” to the first sentence and add an example as to what this entails. Also take into consideration assumptions on the different types of payout options that members and beneficiaries are expected to choose “and the expected payout of benefits” has been added to the last sentence Amendment made.</td>
<td></td>
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</tr>
<tr>
<td>7.11</td>
<td>IAA</td>
<td>Replace “the methodologies used in the valuation of assets” with “market conditions and expectations” Amendment not made. The amendment has not been changed as it has a different interpretation of the text originally agreed by the Council.</td>
<td></td>
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</tr>
</tbody>
</table>
| 7.14 | IAA  | Replace “sufficient to meet accrued benefit payments” with “equal to the target funding level after Amendment made. The text now reads “The legal provisions require the
| 7.15 | IAA | Delete IG since the content is covered in other guidelines | **Amendment not made.** The IG addresses the issue of approving funding methods which reduce cost volatility. This is not addressed elsewhere. |
| 7.16-7.17 | IAA | Rewrite the IG to further clarify the separate issues. The issue of amortising the supplemental costs in IG 7.16 should be rewritten and incorporated with 7.17 which address the volatility in funding contributions. | **Amendment not made.** IG 1.16 addresses the issue of how costs should be valued and amortised. IG 7.17 addresses the issue of achieving a smoother contribution schedule. These issues should be treated separately as in the text originally agreed by the Council. |
| 7.18 | IAA | Make the IG applicable also to overfunding not just underfunding. | Amendment made. |
| 7.18 | Germany | Delete “The legal provisions should clearly describe the restrictive circumstances, if any, under which reprieve from contribution obligations may be possible; any such reprieve should be subject to defined limits.” “any such reprieve should be subject to defined limits.” Has been deleted. |
| 7.19 | Australia | 7.19 should rely on an actuarial assessment of funding adequacy | Amendment made. The goal of this implementing guideline is to give direction on how to build reserves against the volatility of markets. The text now reads “Acceptable mechanisms for correcting situations of over or underfunding should include promoting a countercyclical approach, providing incentives to build reserves against future market downturns.” |
| 7.19 | IAA | Tone down the text. |
| 7.19 | Australia | The specific requirements for treatment for a high level of funding should be removed. | **Amendment not made.** The issue of temporary suspension of contributions is included in the currently agreed core principles. The new wording simply sets out that such a situation should arise only in cases of high levels of |
| 7.19 | Germany | Delete 7.i | }
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<tbody>
<tr>
<td>IAA</td>
<td>It is important to address the fast pace of, for example, contributions holidays and the fact that deficits accumulate over time. Replace “calculated on an on-going basis” with “calculated against the higher of the on-going or termination liability”</td>
<td>overfunding or surplus and emphasising the control of actions taken to ensure the best interests of members and beneficiaries</td>
<td>Amendment made. The sentence has been removed.</td>
</tr>
<tr>
<td>7.20</td>
<td>IAA</td>
<td>Make clearer reference to the funding objective on the plan and take on board suggestions to further clarify the terms of the IG.</td>
<td>Amendment made.</td>
</tr>
<tr>
<td>7.21</td>
<td>IAA</td>
<td>Insert “and the extinguishing of the plan’s obligation to pay benefits to members and beneficiaries” to the first sentence. Add a clearer reference to the established rules “set out in the governing documents of the plan”</td>
<td>Amendment made.</td>
</tr>
<tr>
<td>7.22</td>
<td>IAA</td>
<td>Replace “plan benefits are guaranteed by sponsoring employers” with “the sponsor bears the risk of the pension promise”</td>
<td>Amendment made.</td>
</tr>
<tr>
<td>8.1</td>
<td>Germany</td>
<td>Delete “The legal provisions should also facilitate the automatic enrolment of employees in occupational pension arrangements.” as there should be prior consent of the employee.</td>
<td>Amendment made. The word “automatic” has been deleted still keeping the essence of the IG to facilitate enrolment in occupational plans.</td>
</tr>
<tr>
<td>8.6</td>
<td>India</td>
<td>8.6 is difficult to apply to DC plans where benefits are inherently dependent on market performance. The text should be loosened allowing for the retroactive reduction of benefits if the financial situation of a fund requires this.</td>
<td>Amendment made. The IG now states “Regulations should prevent the retroactive reduction of the obligations of a pension plan to members and require that plan members obtain adequate and timely notice and information regarding any reduction in the rate of future benefit accruals in the pension plan.”</td>
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| 8.9 | India | For DC schemes vested benefits should be protected regardless of the reason for severance. It is proposed to delete “except in the limited case of gross malfeasance that are clearly
of dismissal resulting from acts of gross malfeasance that are clearly defined”.
related to the plan.” This should apply to both DC and DB plans.

| 8.1 | Netherlands | Object to the terminology “fair treatment” of spouses and dependents. Suggest rephrasing to: “Spouses and dependents must be informed by the pension fund of their rights and obligations under the scheme rules in the event of the death or the breakdown of marriage of a pension plan member.” | Amendment made. The guideline has been moved under CP5 and is now an IG labelled 5.i under “Disclosure and availability of information”. The phrase “and should be treated in accordance with these rules” has been added to the end of the suggested phrase. |
| 8.16 | Australia | Members not using their portability rights when changing employers seems superfluous given common practice shows the opposite. Portability is more important in a DB environment. | Although common practice in some countries shows that members almost always choose to use the portability of their rights, the choice should be left to the member. This can be applied also to DC and hybrid schemes and therefore specific reference to DB schemes is not made. “In DC plans members should be granted the possibility to consolidate their savings from different plans.” has been added as IG 8.ii. |
| CP10 | Czech Republic | Delete first sentence in paragraph 3 setting out the members’ rights to full portability. | Amendment not made. The word “Generally” is already used at the beginning of the sentence which also softens the language. It is important to address the issue of portability as was agreed by the Council in the original version of the Core Principles. |
| 10.1 | Australia | Add text on where there is favourable tax treatment of investment within a fund, or on withdrawals from the fund, it may be appropriate to place restrictions on the level of non-tax deductible contributions. Remove “Providers may only impose minimum contributions to such plans in order to reduce the impact of any flat fees on pension rights.” | Amendment made. This issues on how plans design their incentives has been removed to as the guidelines should encourage only equal treatment. The first sentence has been integrated into 10.2 and 10.1 has been deleted. The numbering of the implementing guidelines will be amended in the final version. |

GLOSSARY

Pension entity: the independent legal entity with legal capacity that has ultimate legal responsibility for the pension fund. It can take the form of an independent legal entity acting as a pension trustee (such as a corporate trustee in the case of pension funds established as trusts), or a pension fund with legal capacity.
(such as foundations and mutual associations) or a pension fund management company. An insurance company or other financial institution may be considered a pension entity insofar as it is legally responsible for a pension fund and otherwise fits the definition of the first phrase of this definition. The term “pension entity” does not refer to plan participants, the plan itself, or the employer (unless the employer is also the pension fund management company or has directly contracted a management company to handle the corporate pension).

**Pension fund:** the pool of assets forming an independent legal entity that is bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund. Pension funds take the form of either a trust, an independent entity with legal capacity (such as a foundation or mutual association) or a legally separated fund without legal capacity managed by a dedicated provider (pension fund management company) or other financial institution on behalf of the plan/fund members. The term “pension fund” does not refer to individual pension contracts.

**Pension fund management company:** a type of financial institution in the form of a company whose exclusive activity is the management of legally separated pension funds. In some countries, these entities only manage pension fund assets. In others, they may also have the power to pay out benefits.

**Private pension plan:** a pension plan administered by an institution other than general government. Private pension plans may be administered directly by a private sector employer acting as the plan sponsor, a private pension fund or a private sector provider. Private pension plans may complement or substitute for public pension plans. In some countries, these may include plans for public sector workers.

**Funded pension plans:** occupational or personal pension plans that accumulate dedicated assets to cover the plan’s liabilities. These assets are assigned by law or contract to the pension plan. Their use is restricted to the payment of pension plan benefits.

**Occupational pension plans:** access to such plans is linked to an employment or professional relationship between the plan member and the entity that establishes the plan (the plan sponsor). Occupational plans may be established by employers or groups thereof (e.g. industry associations) and labour or professional associations, jointly or separately. The plan may be administered directly by the plan sponsor or by an independent entity (a pension fund or a financial institution acting as pension provider). In the latter case, the plan sponsor may still have oversight responsibilities over the operation of the plan.

**Personal pension plans:** access to these plans does not have to be linked to an employment relationship. The plans are established and administered directly by a pension fund or a financial institution acting as pension provider without any intervention of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension plans. Some personal plans may have restricted membership.