

IOPS PRINCIPLES OF PRIVATE PENSION SUPERVISION

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Outline

Aim and purpose of IOPS

- Standard setting body on pension supervisory matters
- Promotion of international cooperation on pension supervision
- Provision of a world wide forum for information exchange on pension supervision
- Provision of research into supervision issues

IOPS Principles of Private Pension Supervision

Principle 1 : Objectives

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

- Strategic objectives should be clear and public
- Responsibilities of the pensions supervisor should give a clear mandate and assign specific duties

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Principle 1 : Objectives; Assessment questions

- Is there legislation providing for a pension supervisor?
- Does the legislation set out objectives?
- Are objectives public and binding?
- Does the legislation explicitly set out responsibilities and duties of the pension supervisor?
- Does the supervisor explicitly set out its responsibilities and duties (and are they consistent with legislative objectives?)

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Principle 2 : Independence

Pension supervisory authorities should have operational independence

- Autonomy in day-to-day operations and decision making
- Funding to ensure independence
- Appointment procedures transparent
- Judicial review of supervisory actions

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Principle 2 : Independence; Assessment questions

- Is the supervisory authority established as a body with operational independence?
- What type of restrictions exist on the ability of the government to make directions to the supervisory authority?
- Is there transparency in the process for appointing senior positions?
- Is there transparency in the process for terminating senior positions so that threat of termination can't be used to influence decisions?
- Are senior officers replaced when there is a change of government?
- If funded by levies on supervised entities, is there freedom from interference by these entities?

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Principle 3 : Adequate resources

Pension supervisory authorities require adequate financial, human and other resources

- Able to conduct functions efficiently and independently
- Funding to ensure independence

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Principle 3 : Adequate resources; Assessment questions

- Is the budgetary timeframe long enough (e.g. 3 years) to provide stability in planning and recruitment?
- Is the budget sufficient to enable supervisory agency to meet its responsibilities? (very subjective)
- Does the agency have freedom in hiring with regard to staff numbers and salary?
- Are senior staff appropriately qualified?

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Principle 4 : Adequate powers

Pension supervisory authorities should be endowed with the necessary investigative and enforcement powers to fulfil their functions and achieve their objectives

- Powers appropriate to the system being supervised
- Powers appropriate to the manner of supervision e.g. appropriate investigatory and enforcement powers

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Principle 4 : Adequate powers; Assessment questions

- Are the supervisor’s powers clearly established by its governing legislation?
- Can the supervisor gain access to the information it needs?
- Is there a licensing or registration process that enables the supervisory agency to obtain relevant information and to reject/amend/revoke the license/registration in the case of serious non-compliance?
- Can the supervisor enforce legislation relating to funding/capital adequacy, fitness and propriety?
- Have there been any difficulties in using available powers?

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Principle 5 : Risk orientation

Pension supervision should seek to mitigate the greatest potential risks to the pension system

- Objectives of supervision should be risk-based
- Allocate supervisory resources to highest risk areas
- Pro-active approach to avoid problems before they occur

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Principle 5 : Risk orientation; Assessment questions

- Are the supervisory authority's objectives risk based rather than focusing on compliance?
- Are resources of the authority allocated to the highest risk areas?
- Do the supervisors consider both the probability and likely impact of potential risks?
- Does the supervisor assess risks for each entity under supervision (for example by a risk scoring model)

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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

- Important to have the appropriate range of legal powers and tools
- Similar cases dealt in similar manner

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Principle 6 : Proportionality and consistency; Assessment questions

- Can the supervisory authority vary its activities according to the magnitude of risks being addressed?
- Does the supervisory have procedures for helping the choice of a proportionate response, such as an enforcement pyramid?
- Does the supervisory allow entities appropriate flexibility in deciding how to comply with legislation?
- Are there processes in place to ensure consistency between actions where circumstances are similar?

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Principle 7 : Consultation and cooperation

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

- Industry consultation assists to get ‘buy-in’
- Information exchange with co-regulators at home and under cross-border arrangements promotes efficiency and supports preventative measures

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Principle 7 : Consultation and cooperation; Assessment questions

- Does the supervisory authority consult with the pensions industry when determining strategic supervisory approaches?
- Is the supervisory authority empowered to exchange information with equivalent overseas authorities, subject to appropriate requirements?

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Principle 8 : Confidentiality

Pension supervisory authorities should treat confidential information appropriately

- Only release if permitted by law
- If in doubt, check first
- Principle extends ‘down the line’

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Principle 8 : Confidentiality; Assessment questions

- Does the supervisory authority have a confidentiality policy which sets out the authority's procedures to prevent inappropriate disclosure of non public information?
- Are there mechanisms to prevent disclosure of confidential information by staff, including after they have left the supervisory authority?

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Principle 9 : Transparency

Pension supervisory authorities should conduct their operations in a transparent manner

- Adopts clear, transparent and consistent processes
- Regularly reports on policy and performance
- Subject to external review
- Publishes industry information

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Principle 9 : Transparency; Assessment questions

- Does the supervisory authority publish its rules and procedures?
- Is the supervisory authority subject to appropriate audit and reporting requirements (that do not compromise its independence)?
- Does the supervisory authority publish an Annual Report explaining how it has (or has not) met its objectives?
- Does the supervisory authority explain to individual supervised entities why it has taken particular action?

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Principle 10 : Governance

The supervisory authority should adhere to its own governance code and should be accountable

- Controls, checks and balances
- Code of conduct
- Decisions are reviewable
- Accountable to e.g. Parliament, members and beneficiaries

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Principle 10 : Governance; Assessment questions

- Does the supervisory authority have appropriate codified procedures for internal governance, and is compliance with these, monitored and enforced?
- Is there a code of conduct for all staff regarding gifts, hospitality etc and declaring conflicts of interest?
- Is there independent review within the agency of decisions which have significant implications for the supervised entity?
- Is there an appeals process against decisions?
- Does the supervisory agency measure its performance against objectives and provide external stakeholders with the results?

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METHODOLOGY

- Provides a structured framework for assessing the extent to which a pension supervisory authority complies with the letter and spirit of the Principles
- Can be used for external or self-assessment
- Also indicates type of evidence that may help to answer questions
- Compliance rated as:
 - **Fully implemented** - the IOPS Principle is implemented in all material respects
 - **Broadly implemented** - the Principle is implemented in all but one or two material respects and the exceptions do not significantly detract from the overall opinion. It should be possible to say something positive about compliance in answer to nearly every question
 - **Partly implemented** - while a negative answer is given to some questions, the responses to the majority of the questions are consistent with compliance
 - **Not implemented** - there are major shortcomings against the Principle
 - **Not applicable** - the Principle does not apply due to structural, legal or institutional features