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Efficient Information Collection



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ABSTRACT

Efficient Information Collection

Collecting information as efficiently as possible is a key part of any well functioning pension supervisory regime. The issue is becoming even more important as pension supervisors adopt a risk-based supervision approach, necessitating new types of information and analysis.

The purpose of this paper is to provide guidance on the factors pensions supervisors should consider when deciding what information they need to obtain, and how such information can be collected and handled efficiently. Particular focus is given to information required for a risk-based approach to supervision. Suggestions and examples are provided on how supervisors may identify information needs and on the practicalities of obtaining (and sharing) information from different sources.

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¹ This Working Paper was prepared by Mr. John Ashcroft, an independent consultant who was formerly with the Pensions Regulator in the UK and served as President to the IOPS.

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I. INTRODUCTION

1. Obtaining information as efficiently and effectively as possible is important for any well functioning pension supervisory regime. The purpose of this paper is to provide guidance on the factors pensions supervisors may consider when deciding what information they need to obtain, and how such information can be collected and handled efficiently. Suggestions and examples are provided on how supervisors may identify information needs and sources and on the practicalities of obtaining (and sharing) information from different sources.

2. This paper focuses in particular on the information required for risk-based supervision, as information collection needs to be awarded even greater prominence as pension supervisors roll out a risk-based approach.² Indeed IOPS members who have already made the move to risk-based supervision, identified data collection as one of their major (and most unforeseen) challenges. As they described - it is no use building theoretically perfect systems if there is nothing to put in them and nothing to analyse.³

3. Risk-based supervision can affect the nature and source of information to be gathered. Information is needed not just on what is going wrong but what is going *right*, so that effort can be targeted at the former (including planning on-site inspection⁴ schedules and deciding which funds to investigate in greater detail). Supervisors need to build a more 'holistic' picture of the overall pension sector⁵ and the entities they are supervising, which entails not necessarily looking at different information, but using it in different ways. Supervisors require *qualitative* information on *how* entities are complying with rules as well as quantitative information showing that they are doing so. Rather than just point in time data (for example, whether a fund complies with an existing rule at a particular moment), they require *trend information* to try and spot developing problems (meaning that the information used must be consistent over time). Information can also be used as early warning triggers, or stress tests can be introduced, again to try and detect problems before they develop. Information on *systemic risk* is also required, while, assessing the *performance of the pension supervisory* authority itself may become more important.

4. Supervisory authorities do not necessarily need to collect more information for risk-based supervision. Indeed they may need to hold less detailed information about the activities of individual plans or funds or about minor compliance failures. Rather the introduction of risk-based supervision gives the authority an opportunity to scrutinize and if necessary re-orientate information gathering.

²Risk-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 minimize and mitigate those risks. This process then allows the supervisory authority to direct its resources towards the issues and institutions which pose the greatest threat. See IOPS Toolkit for Risk-based Pension Supervision for further details – www.iopstoolkit.org

³ See (IOPS 2007b).

⁴ On-site inspections are reviews which take place physically at the premises of the supervised entity.

⁵ For this purpose the pension sector may encompass other financial service providers such as asset managers and sales agents whose activities could impact on the risk to pension fund members and beneficiaries.

Table 1. Information Needed for RBS

Information on what is going <i>right</i> as well as wrong
<i>Qualitative</i> information on how entities are complying with rules as well as quantitative information showing that they are doing so
<i>Probability</i> of risks
<i>Impact</i> of negative events
‘Big picture’ information on <i>systemic</i> issues
<i>Trend</i> as well a point in time information
<i>Early warning</i> triggers (not always used)
<i>Stress tests</i> (not always used)
Information from <i>other sources</i> than the supervised entity
<i>Performance</i> measures for the supervisory authority
<i>Do not need</i> detailed information on every minor compliance failure

5. The paper sets out: some of the purposes for which specific information might be needed; the type of information that may be needed for such purposes; factors to be considered in developing an information strategy; and some conclusions.

II. WHAT INFORMATION DO SUPERVISORS NEED?

6. All supervisory activities require reliable information and the supervisor needs to ensure that it holds the right information for each activity. When moving to a more risk-based supervision approach it is important to review what information is required so as to source new information most efficiently. Information may need to be obtained for the following risk-based purposes, both at the entity level and the more industry/ strategic level, which are covered in the text that follows:

- Licensing or registration
- Offsite analysis (rules-based and risk-based)
- On-site supervision (rules-based and risk-based)
- Systemic risk analysis
- Information for members/beneficiaries
- Performance measurement

1. Licensing or registration

7. The amount of information needed for licensing varies according to national legislation. Guidance is provided in the *OECD-IOPS Guidelines on the licensing of pension entities* (OECD / IOPS 2008) which indicated the following types of information that may need to be obtained:

- contact details of plan sponsor(s), plan/fund actuary, independent auditor and custodian, and plan administrator if different from plan sponsor and custodian;
- the governing documents of the entities;⁶
- any outsourcing (third party) service contract;
- documents proving that the pension entity meets regulatory capital requirements (if any),
- information on the governance structure, along with the names, CVs and contact details of the members of the governing body, and possibly copies of professional certificates and a declaration confirming that members have not been convicted of a financial or property-related crime and that no criminal proceedings are pending against them (or more generally, have passed the “fit and proper” tests);
- information on risk-control mechanisms (including mechanisms to identify and address conflicts of interest and operational risks, such as those linked to technological failure);

6 The OECD/ IOPS Licensing Guidelines (OECD / IOPS 2008) state that it is important that the governing documents set out the (i) legal form of the pension entity, its capital structure and purpose; (ii) the contributions and benefits (iii) the vehicles to be used to ensure the legal separation of the pension plan/fund assets from the pension fund management company as well as the other plans and /or funds managed by it; (iv) the organisational structure; (v) the governance structure and the roles and responsibilities of the governing body or bodies; and (vi) any affiliation contracts through which the pension entity subjects itself to the management of another company.

- information on reporting and auditing mechanisms;
- documents setting out the funding policy (including, if applicable, an initial actuarial valuation);
- documents setting out the investment policy, including the financial objectives of the pension fund or plan, the investment principles, the strategic asset allocation, the performance and risk objectives, the process for selecting asset managers and mechanisms for monitoring and reviewing performance and changing the asset allocation and asset managers; and
- the entity's business plan⁷.

8. While this information should provide a good foundation of information for the other purposes outlined below, it should be noted that this information is largely qualitative and may become out-dated unless there are requirements for significant changes to be notified to the supervisor.

9. Supervisors that only register⁸ and do not licence supervised entities generally obtain much less information for registration, which may not go much beyond contact details for the entity and its governing board. They may well therefore have to obtain much more information for other purposes.

2. Off-site analysis – rules-based and risk-based

10. Information can be used off-site to check for compliance with legislation and rules, and for analysis that can be used to inform other supervisory activities. This information is most commonly quantitative covering in particular how the assets of the entity are invested, the extent and nature of the liabilities and the relationship between assets and liabilities.

11. The main reasons why off-site analyses is undertaken is to check compliance with rules and to contribute to risk assessment. Where compliance with investment legislation or rules is being checked the level of detail may need to be very high, for instance to enable the supervisor to check that the entity is observing limits on the concentration of investments. Transaction reports may be needed if the supervisor wishes to check how quickly or accurately transactions have been processed.

12. Alternatively, off-site analysis may highlight issues that do not represent a breach of legislation but need further consideration during the inspection process, for instance to seek explanations of why particular investment actions have been taken. While such information can be supplied on a case by case basis, it can also contribute to a more formalised process of entity risk assessment on an ongoing basis, for example, for all funds or for a particular class of funds.

13. The implementation of risk-based supervision can significantly change the nature of off-site analysis. The assessment of the risk posed by each supervised entity is central to risk-based supervision and often employs some form of risk scoring system. Off-site analysis allows supervisors to determine the frequency and priority of routine on-site supervision or determine whether an un-programmed or emergency inspection is called for. Risk-based supervision should also provide early warning of potential problems. A risk-based supervision approach may be applied to a selection of entities from which to obtain information. Examples of types of information required for off-site assessments (as set out under Guideline 2 “Reporting requirements” of the IOPS Guidelines for Supervisory Assessment (IOPS 2008) can include:

⁷ This may encompass plan sponsor's business plan where the administration of the plan is contracted out.

⁸Terminology varies – in some jurisdictions “registration” is synonymous with licensing, i.e., the full range of supervisory procedures will be applied, but in others, “registration” merely means that the authorities have been notified of the existence of the pension fund. See (OECD/IOPS 2007)

- a. *Basic Fund Information*: type of fund; status of fund; number of active, deferred members and beneficiaries ; movements in numbers over the period; benefit eligibility and plan access; vested rights; merger and liquidation process; disclosure procedures; redress mechanisms.
- b. *Financial Information*: value of fund; value of liabilities; amount of contributions received; transfer values; amount of investment income; amount of benefits paid.
- c. *Governance Information*: structure and mandate of governing board; appointment procedure and qualifications of members; decision making procedures; risk management procedures (such as internal compliance programmes); details of service providers and outsourced functions (actuaries, auditor, custodian, investment manager etc.), including how appointed, monitored and dismissed; plan sponsor details.
- d. *Conduct of Business Information*: transparency and disclosure policies, including what information is transmitted to members and beneficiaries of the pension fund and in what form;
- e. *Investment Information*: investment strategy; asset allocation; transaction details; investment performance; costs and fees charged; portfolio ‘stress tests’

14. The nature of the information collected will differ according to the pension system – examples are given in the box below.

Box 1. Example – Off-site Analysis

Mexico – the supervisor, which oversees a small number of mandatory pension funds, uses a summary of transaction data submitted daily by pension funds to check compliance with investment regulations and as an early warning of potential breaches of their risk-based ‘value at risk’ measure for fund performance. The system issues warnings where funds are close to specified limits as well as informing the supervisor of issues requiring further examination.

The Slovak Republic, where the mandatory pension system was fairly recently established, more than 20 qualitative and quantitative rules on the types of investment in which the pension companies may invest still apply, as do strict rules on the transparency to members of the investment policy adopted. There are ranges for the percentage of each type of pension fund which may be invested in particular types of assets. The law also prescribes a limited number of permitted categories of assets, restrictions on the use of derivatives, restrictions to avoid concentrations of investment in particular types of assets, geographic areas and counter-parties. The supervisor regularly monitors compliance with the rules, using data on portfolio composition, together with all transactions, submitted daily by mandatory pension companies and monthly by voluntary pension companies.

By contrast, in **the Netherlands** where the pension supervisor oversees a mature, occupational, defined benefit pension system, off-site analysis of information and risk assessment is used to provide early warning of potential problems and, for the majority of funds, triggers issues to be dealt with during on-site reviews and indeed helps set the order in which funds are to be supervised.

In **Australia**, the supervisor uses data on pension fund investments to determine whether there are investment allocation or diversification issues that would affect the entity’s overall risk rating.

In **Canada**, (which also has a mature, DB pension system), actuarial solvency assets and liabilities are projected forward approximately to give the supervisor early warning of potential problems.

3. On-site supervision – rules-based and risk-based

15. Policy documents prepared by supervised entities are necessary and useful but reflect intent, while quantitative information on their activities is inherently backward-looking and may not give the full

picture. To assess the application of policy in practice, most supervisory authorities consider it desirable to hold meetings with members of the pension fund's governing board, management or operational staff, commonly on-site. This is the case regardless of whether on-site supervision forms part of a routine programme (whether compliance or risk-based) or has been triggered by information on specific risks or problems which may necessitate some form of intervention. Furthermore, it may be more efficient and effective to examine documentation and processes on-site rather than relying on off-site analysis.

16. On-site supervision will typically include a walk-through with the members of the pension fund's governing Board/senior management of strategic issues, business plans, and a subjective assessment of key players and dominant relationships, as they relate to the issues being examined. This should assist the supervisor in gaining intimate knowledge of the capabilities and limitations of those in control of the supervised entity. The objective is to make some form of credibility evaluation. A major objective of on-site supervision is to validate information and policy documents already provided to the authority and enable some form of credibility evaluation.

17. On-site supervisory activities are resource intensive and require careful planning and preparation, with meetings scheduled in advance with key personnel of the plan or fund management and governance structure, as well as key outside professionals, such as the fund actuary and auditor. The preparation would normally involve analysis based on information ordinarily available to the supervisor, or specifically collected prior to the visit, leading to a preliminary assessment of the areas of risk that are to be tested on-site.

18. The information needed for this purpose depends on the type of on-site supervision undertaken (e.g. regular or 'emergency', planned or 'unannounced', general or covering specific issues), and may include details regarding:

- investments held, including returns on investment and assumptions about future returns;
- transactions, such as allocations of receipts to funds, record-keeping and payment calculations;
- governance and administrative arrangements, including the management and oversight or outsourced contracts;
- risk management processes and reports, and the results of risk reviews;
- defined benefit liabilities, such as benefit structures, age, gender and entitlements of members, and other components of actuarial calculations; and
- funding and stress testing calculations.

4. Systemic risk analysis⁹

19. All supervisory authorities need basic information about the population of entities under supervision. As supervisory authorities move towards a risk-based supervision approach, they need also to obtain information about the key risks to the pension system that will influence their resource allocation and planning. Risks can be identified and assessed on two levels, on a 'micro' and a 'macro' basis – taking

⁹ The term systemic risk refers to both systemic risk - i.e. a specific factor which can have an impact on the pension sector as a whole (e.g. increased volatility in worldwide capital markets, as was experienced in 2008/2009) – and also 'system-wide risk' – i.e. a risk factor which may be prevalent in most pension funds (e.g. weak governance).

a ‘bottom up’ approach and attempting to identify risks at the level of individual supervised entities, or a ‘top down’ approach looking a risk on a sector or thematic basis. If all entities of a particular type are subject to a particular risk, it may more efficient to deal with the risk by taking action affecting the entire pension system than acting on a fund by fund basis.

20. Where supervisory authorities wish to undertake a macro analysis as a key element in risk-based supervision, they need to obtain information on the potential impact and likelihood of systemic risks.

21. Systemic risks can be defined as being risks that affect all or most supervised entities, or some sub-section of them (for example defined contribution (DC) plans or defined benefit (DB) plans) or even a broader financial sector.

22. The information needed for systemic risk analysis tends to be quantitative, sector-level information covering matters such as:

- number and membership including beneficiaries of supervised entities, by plan type;
- assets and (for DB plans or funds)¹⁰ liabilities under management;
- financial position of plan or fund sponsors (which could impact DB funding / DC contributions);
- pension fund investments;
- performance of financial markets;
- other data relating to major risks such as funding, governance and conduct of business;
- contributions received by supervised entities; and
- information related to financial stability of financial institutions that provide guaranteed products.

23. The extent to which a supervisory authority needs this information for developing its strategy depends upon its remit, objectives, the types of benefits promised and the number of supervised entities. For instance, supervisors of DB plans or funds are likely to be interested in information on deficits and the strength of reserves or potential employer support. DC supervisors might be interested in the possibility that pension sector investment decisions could cause asset price ‘bubbles’. Where a supervisory authority needs trend data to show how the sector and risk profile is changing over time, it will need to be consistent in specifying the data to be obtained in order to make valid comparisons and identify trends over time.

24. Holistic information on the financial and economic landscape can be assessed to ascertain factors which may impact pension funds in general (e.g. many supervisory authorities conducted special surveys in 2008 to assess the impact of the financial crisis on the pension system in their countries).¹¹ This is especially so where they have an objective relating to the stability of the financial system and information may need to be obtained about specific (commonly large) entities to help monitor financial stability. For

10 In some cases for DC funds too, where interest is not fully allocated and “reserves” (or worse deficits) exist.

11 For example supervisory authorities in Germany, Lithuania, Slovakia and Spain asked pension funds to report exposure to particularly issuers (such as Lehman brothers), whilst in Norway funds were asked to report their gross exposure to foreign financial institutions and possible expected losses. See (Antolin and Stewart 2009).

example, pension fund investment decisions could impact on financial markets or issues arising in other financial markets could expose all pension funds to increased risk. It is also relevant where pension funds are sufficiently large for their actions to have wider or macro-economic consequences. An example is given below.

Box 2. – Example – Systemic Risk Analysis

After the failure of Lehman Brothers, several supervisors, including the Dutch National Bank, required pension funds to supply information about their holdings of structured, especially sub-prime products, so as to help gauge the exposure of the financial sector to the newly apparent risks and to consider what supervisory action might be needed to help manage the risks. The additional information gathered by the supervisor in Germany, for example, is outlined in the section on supervisory returns, (paragraph 41 below)

25. Where a systemic risk is well established, relevant information can be obtained as a matter of routine. New risks may necessitate an ad hoc request for information. What is relevant information would depend on the nature of the systemic risk, but could include details of investments, the solvency position of pension funds or the relationship between the balance sheets of pension funds and their sponsors. For example, a supervisor may notice from sector-level data a significant increase in pension plans (DB or DC) closed to new members and be concerned, (possibly with supporting anecdotal evidence) that these plan closures may increase the risk of poor governance. The supervisor might then obtain further information on governance and undertake analysis to see whether the increase in closed plans is likely to be associated with increasing risks to members and beneficiaries, and if so what additional supervisory monitoring or action may be desirable.

26. The key feature of this information is that it is high level and broad brush. Only risks that the supervisor considers most important need to be covered in any depth (although the supervisor needs to be alert for possible new risks which need to be explored). Where there are a large number of supervised entities (e.g. in the UK where the Pensions Regulator has oversight of some 60,000 occupational pension plans), the supervisory authority may wish to focus on data sets covering just the largest entities or to use survey data for some risk measures.

5. Information for members and beneficiaries

27. Many supervisors with conduct of business responsibilities provide some web-based information for members and beneficiaries to help them make choices of products.¹² This may well be in response to an identified risk such as inadequacies in competition or member financial understanding. In the case of Chile, the supervisor goes further than providing information (on annuity rates) and facilitates the purchase of the product, through the SCOMP system.¹³ Several supervisors provide interactive pension calculators to help members forecast the level of pension they will receive for a given product and contribution level.¹⁴ Supervisors also provide comparative information on product features and comparative tables on costs and fees – as is the case with the MPFA in Hong Kong, for example.¹⁵

12 More detail on this subject can be found in IOPS Working Paper 5 (IOPS 2008b)

13 See IOPS Working Paper 7 (IOPS 2008c)

14 IOPS working paper 5 (IOPS 2008b) indicates Australia, Hong Kong, Mexico, Poland and Ireland. It should be noted that the supervisor concerned may be different from the supervisor with IOPS membership.

15 http://cplatform.mpfa.org.hk/MPFA/english/cf_list.jsp The MPF Fee Comparative Platform (the “Platform”) is a handy and user-friendly tool, available online on the MPFA’s website to help scheme members and other stakeholders compare information about fees and charges of MPF funds. The functionalities are designed

Figure 1: MPFA Hong Kong Fee Comparative Platform

The screenshot shows the MPFA Hong Kong Fee Comparative Platform interface. At the top, there is a navigation bar with the title "Fees of all MPF Funds" and a search bar. Below this, there are filters for "Fund Type" (set to "All Fund Types"), "Trustee" (set to "All Trustees"), and "Scheme" (set to "All Schemes"). A "Go" button is present next to the scheme filter. Below the filters, a summary line indicates "419 funds selected / Average FER = 1.98% / Median risk indicator = 11.57%". The main content is a table with the following columns: MPF Trustee, Scheme, Constituent Fund, Fund Type, Latest FER, OCI 1 Year, OCI 3 Year, OCI 5 Year, Fund Risk Indicator, and Details. The table lists various funds, including those from AIA and AIA-JF, with their respective performance metrics and risk indicators. At the bottom of the table, there are buttons for "Download Result", "Print Result", "Back", and "Back to Top".

MPF Trustee	Scheme	Constituent Fund	Fund Type	Latest FER	OCI 1 Year	OCI 3 Year	OCI 5 Year	Fund Risk Indicator	Details
AIA	AIA-JF Comprehensive Retirement Benefit MPF Scheme	Capital Preservation Portfolio	Money Market Fund - CPF	2.13%	n.a.	n.a.	n.a.	0.00%	More
AIA	AIA-JF Comprehensive Retirement Benefit MPF Scheme	Guaranteed Portfolio	Guaranteed Fund	1.83%	\$19	\$59	\$102	0.00%	More
AIA	AIA-JF Mandatory Provident Fund Scheme	Asian Equity Fund	Equity Fund	2.17%	\$23	\$70	\$120	24.97%	More
AIA	AIA-JF Mandatory Provident Fund Scheme	Balanced Portfolio	Mixed Assets Fund	2.31%	\$24	\$75	\$128	10.80%	More
AIA	AIA-JF Mandatory Provident Fund Scheme	Capital Preservation Portfolio	Money Market Fund - CPF	2.03%	n.a.	n.a.	n.a.	0.00%	More
AIA	AIA-JF Mandatory Provident Fund Scheme	Conservative Portfolio	Mixed Assets Fund	2.30%	\$24	\$74	\$127	7.46%	More
AIA	AIA-JF Mandatory Provident Fund Scheme	European Equity Fund	Equity Fund	2.18%	\$23	\$71	\$121	22.41%	More
AIA	AIA-JF Mandatory Provident Fund Scheme	Global Bond Fund	Bond Fund	n.a.	n.a.	n.a.	n.a.	n.a.	More
AIA	AIA-JF Mandatory Provident Fund Scheme	Greater China Equity Fund	Equity Fund	2.19%	\$23	\$71	\$122	27.43%	More
AIA	AIA-JF Mandatory Provident Fund Scheme	Green Fund	Equity Fund	0.61%	\$6	\$20	\$35	n.a.	More
AIA	AIA-JF Mandatory Provident Fund Scheme	Growth Portfolio	Mixed Assets Fund	2.32%	\$24	\$75	\$128	18.25%	More

28. In some countries legislation impose detailed information obligations on supervised entities¹⁶. For example, in Slovakia there are requirements to disclose detailed information on products and their performance on the entities' webpage. At the same time the supervisory authority's webpage serves as central point of reference for historical performance data of all pension funds and financial information on pension managers (number of members, Revenues, Expenses, Profit/Loss, Return on Equity and Return on Assets).

to be easy to use. Users can view or search information by different groupings, e.g. fund type, scheme, trustee, ranking (ascending/descending order). For more advanced manipulation, the Platform allows users to select a basket of funds from the MPF universe to compare their key attributes. Users can find and compare a number of key information across all MPF funds, including the fund expense ratio, on-going cost illustration and the fund risk indicator. The Platform also provides a summary table showing the average, highest and lowest FERs of each fund types as well as for all MPF funds. Detailed information in respect of each MPF fund is condensed into a one-page summary. This includes the fund descriptor, fund size, date of launch, financial year end date and fee components from the standardised fee table. The Platform also provides access to the most recent fund fact sheet of each MPF fund, which includes past performance information.

16 This may be particularly relevant to countries with individual pension systems, where private pension entities are large as a consequence of high barriers for entry into the market.

29. Some supervisory authorities provide a tool such as a pension calculator to enable an individual to estimate their likely retirement benefit under various scenarios. To be able to provide reliable comparative information the supervisor needs sufficient information on pricing structures and other key variables to be able to customise the information provided to the individual circumstances of the member using the service, for instance, age, gender, expected retirement age, location and other actuarial factors, level of contributions and accrued pension saving. It also needs an interactive query facility and front-end for the members and to keep the information up to date in what may be a fast changing market. It is important that the information supplied needs to be timely and accurate— otherwise participants may rely on erroneous information and the supervisor might find itself liable (or at least its reputation damaged).

30. Supervisory authorities may also share system-wide information with the supervised community either as part of a published strategy or planning document or through a stand-alone publication aimed at raising awareness and providing a ‘reward’ to those entities that have been put to the expense of supplying information. The extent to which it takes on such an information sharing role may depend on whether other authorities are already publishing information and on the particular circumstances of the confidentiality regime in the jurisdiction. It is important, however, that sensitive information that is confidential to the supervisory authority and supervised entities is not released and is subject to strict security. If the supervisor is the main source of statistical information, it may, if it has appropriate powers, obtain information that although not essential for supervisory purposes improves the value of its publications , for instance on plan members or beneficiary characteristics.

6. Performance measurement¹⁷

31. Measuring the performance of the supervisory authority necessitates obtaining information on how supervised entities have responded to the supervisor’s interventions and the extent to which risks have reduced as a consequence. The following types of information may be appropriate for this purpose:

- trends in, and ratios between, participation, contribution levels and pension plan or fund assets;
- asset allocation, possibly including the relationship with legislative limits and market norms;
- for DB plans or funds, liability and funding levels relative to numbers of beneficiaries, assets held and the state of financial markets, possibly along with information on risk of sponsor insolvency; stress-testing, recovery plan duration or plan funding targets;
- for DC plans or funds, information on investment performance, charges to members and balances at retirement;
- governance issues such as turnover of board members, extent or quality of risk management, implementation of good administrative practice, oversight of out-sourced functions or the management of conflicts of interest;
- the number and type of supervisory interventions and actions taken in response to interventions;
- complaints data;
- industry or member perceptions of the quality of entity management or supervision (via surveys);
- changes in the supervisor’s assessment of entity risks (where appropriate/ available);

¹⁷ The topic is discussed further in (IOPS 2009a)

- surveys of industry participants and / or members;
- performance targets ('customer service' measures);
- cost ratios (such as cost per entity covered/ inspection undertaken).

32. Some performance information is likely to be provided by the system-wide data collected, but other types of measure may require information obtained specially for the purpose. For instance, to measure the supervisor's success in encouraging DB pension plans or funds to improve their funding ratios, the authority could use the aggregated information it obtains on plan or fund assets and liabilities. This information may not, however, provide a good measure of the effectiveness of the authority's interventions. The plan's or fund's funding levels will also have been affected by other factors (such as financial market movements, or changes the plan or fund). Instead, the supervisory authority may wish to obtain more specific information about changes in pension plan funding targets resulting from supervisory intervention, for instance from information requested on supervisory returns or surveys.

33. It is important to specify additional information needed for performance measurement at the time that the relevant measure is being designed, to check that the proposed measure is feasible and to put in place arrangements to obtain it.

III. INFORMATION SOURCES

Choosing information sources

34. Supervisors need to consider how to source the information they need. To obtain it in the most efficient and effective manner supervisors will need to consider a range of sources. It should be noted that few supervisors make significant use of all of these sources. Those they rely on depend on local circumstances and their supervisory approach. This section of the paper considers the benefits that the following sources of information might bring and practicalities relating to their use, such as powers and scope, quality and timeliness, data quality, the use of information technology, and implementation issues:

- **Returns from entities to the supervisor**, such as periodic plan or fund reporting forms or returns, regulatory accounts
- **Reports commissioned from third parties**, such as questionnaires/surveys and reports commissioned into specific issues at supervised entities
- **Information from on-site supervisory activities**, such as checklists completed in advance of or during the evaluation; results of evaluations; reports to the entity
- **Mandatory exception reports**, such as whistle-blowing reports; reports of plan or fund deficits; recovery plans.
- **Transaction reports**, such as schedules showing the allocation of contributions, purchase or sale of assets and benefit payments or prohibited transactions between parties of interest such as pension fund, plan sponsor and third-party contractors
- **Existing datasets and documents produced for non-supervisory purposes**, such as plan or fund annual accounts; plan or fund governance documents; sponsor credit ratings; industry-wide surveys

35. The section concludes with some observations and a useful matrix showing how different data sources may fit with the reasons for obtaining information outlined in section II.

Returns from entities to the supervisor

36. While a supervisory authority may use some kind of standard return to capture some of the information needed for registration or licensing, the main use of returns is to provide information on the ongoing activities, governance and performance of pension entities (transaction reports are considered in a separate section below). While authorities do not have to be risk-based to make use of supervisory returns, this data source is essential where supervisors are implementing risk-based supervision and need to undertake quantitative analyses of the risks posed by individual entities.

37. Supervisory returns can potentially be of higher quality than other sources, especially where legislation makes it an offence to submit erroneous information or requires entities to update the information when circumstances change. Unlike other sources they can be tailored to meet the supervisor's precise information needs and timing requirements and to cover all entities, or all within a specified sub-set (e.g. larger entities). Returns can in particular be used to enable the supervisor to undertake risk-based off-site evaluation processes, such as stress testing and other forms of scenario analysis or value at risk analysis. Such analyses may require large quantities of data which could only reliably be obtained through supervisory returns. Requiring supervised entities to submit returns may also help to ensure that

supervised entities themselves undertake activities that are important for their risk management, such as stress testing or risk analysis. [Example 6](#) in the Illustrative Materials section provides examples of the content of returns used by two supervisory authorities.

Powers and scope

38. The IOPS guidelines (IOPS 2009a /IOPS 2008a) recommend that supervisory authorities should have powers to require returns to be submitted and that they make use of them. Most supervisory authorities have such powers, although the extent of discretion as to the information that is required varies. The powers can be used either to require submission of specific data items or whole listings of transactions, depending on the approach to supervision. Supervisory authorities need to check that they have sufficient powers to require entities to complete and provide returns within a specified time period, and whether these powers extend to requiring electronic submission. For instance, in the UK it was considered that the authority's pre-existing powers to obtain information were insufficient and hence legislation was introduced requiring it to collect information annually, mandating a few essential data items and leaving others to the authority's discretion.

39. Where a routine return is not used, or it would be impractical or unreasonable to amend the standard return form, data can also be collected by one-off returns, either using legislative powers or through co-operation by supervised entities. For example, the Australian supervisory authority has obtained information on DB pension fund solvency levels through a letter to individual trustee companies. All trustees contacted have voluntarily complied with the request for information. Another example is given below.

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Box 3. – Example – Additional Information Request

The pension supervisory authority in Germany (BaFin) set up a special Task Force in 2008 to deal with the financial and economic crisis. They introduced increased reporting requirements for risk, solvency, liquidity and liability coverage for major IORPs¹⁸. Also the frequency of the reporting on investments and/or hidden reserves (usually the frequency was monthly instead of quarterly) and some kind of regular liquidity monitoring was increased to identify and monitor risks. All these activities aimed at improving the ability of the supervisor to track the developments of the sector and to identify potential risks as soon as possible. BaFin also collected information on pension fund investments in particular firms or products (e.g. Lehmans, AIG, structured products, banking sector exposure, Madoff funds), as well as exposure to other investment risks which may not only affect the pension sector (e.g. exposure to countries with high CDS spreads, exposure to automotive industry, exposure to banks issuing covered bonds).¹⁹

40. The situation may be different where there are only a small number of supervised entities, such as in countries that have established a private pension system only recently. Their legislation often provides for quite detailed and frequent reporting requirement which is, however, proportionate to the size of the supervised entities and consistent with requirements imposed on other financial intermediaries. In this case there can be much lower reliance on external data (i.e. other data than information reported by supervised entities). The information may, however, not always be sufficient for supervisory purposes and it is desirable for the supervisor to be empowered to require entities to file an ad-hoc report as required.

18 Institutions for Occupational Retirement Provision

19 For a discussion of how other supervisory authorities reacted to the financial crisis see (Antolin and Stewart 2009).

41. It is in any case desirable that the supervisory authority has some flexibility in specifying the data to be submitted in returns, whether routine or one-off, allowing it to decide how much, how often and from which entities.

Data quality and timeliness

42. While ideally the information requested in returns should be in a form convenient for the entity, this may not always be possible. Where supervised entities are not routinely preparing information in the form requested, it can be costly to the entities, and there is a greater risk that the information will not be supplied expeditiously or accurately, so that the supervisor has to expend significant effort chasing up late returns, and possibly taking action against particularly tardy entities. That said, imposing fines penalties for late or erroneous returns can produce marked improvements in industry practice.

43. The supervisory authority needs to have robust and sufficiently resourced processes for handling and validating returns, transferring the information onto the supervisor's software and analyzing what they are saying, so as to spot matters requiring rapid attention. If, as is usual, returns are submitted to a common deadline, this can cause large peaks (and troughs) in workload. A sophisticated IT system is highly desirable. Nonetheless, there is a risk that the automatic validation might sometimes fail. It is therefore desirable for the supervisory authority employees responsible for collection of data to make corrections of information submitted by entities via electronic means. In Slovakia, administrators of the central database are allowed to perform manual corrections of the reported data, after the approval by reporting entity.

44. The supervisor should ensure that reporting requirements are unambiguous and can be reliably completed regardless of the entity's circumstances. So as to facilitate timely and accurate reporting, the supervisory authority may also provide a telephone helpline to answer questions from those completing the return, at least until they have sufficient familiarity;

45. Even when powers exist to pursue and penalize entities that submit returns late, using these powers may prove time-consuming and costly and the supervisor may wish to make judgments about how to pursue such cases (for example the supervisory authority may choose to expend resources pursuing a few recalcitrant cases in a high profile fashion to act as a deterrent).

46. Similar issues may arise regarding the submission by entities of inaccurate information. The supervisory authority will need to apply validation checks to the returns submitted and request re-submission as necessary. The design of these checks is very important for accurate risk assessment to ensure aggregate data held by the supervisor is not to be corrupted. The supervisory authority may also strive to ensure returns are of high quality by requiring some form of external audit of the data, as for instance is required of pension funds in Australia and the Netherlands. The supervisory authority should make clear to entities about penalties for incorrect submission and indeed its enforcement approach more generally.

47. The timeliness, and indeed accuracy, of returns may be improved where there are benefits to the entity from prompt submission. In particular, this is possible where the supervisor uses information about the submission of returns as risk assessment criteria, for instance increasing the risk rating, and hence likelihood or frequency of inspection, where returns are not submitted or are submitted late. For instance, late or non-submission of returns is scored negatively as part of the risk-assessment systems used by the Kenyan and South African supervisory authorities (Retirement Benefits Authority – RBA - and Financial Services Board - FSB). In Kenya the timeliness of submission of returns contributes 10% to a pension plans' risk score. The US supervisory authority (Department of Labor) provides an incentive for administrators to remedy violations of the legislation mandating returns through its Voluntary Fiduciary Correction Program which reduces the applicable sanctions where corrections are volunteered (see [Example 3](#)).

Frequency of returns

48. Another consideration is the frequency of returns. Frequency varies considerably between IOPS members, ranging from Bulgaria, Mexico and Turkey who collect transaction information daily to Belgium and Spain who collect information annually and the UK who collect information either annually or, from small pension plans, every three years. Different data might entail different frequencies, for example in Canada basic financial and membership data are gathered annually, while actuarial valuations are generally required every three years. To determine sufficiency in this context, supervisors need to consider the effect of reporting lags on the identification and management of emerging risks. In some countries legislation requires entities to update information submitted where it may change the supervisor's risk assessment. Otherwise, returns need to be supplemented by other sources of information, such as mandatory whistle-blowing type reports.

49. The number of entities submitting returns and hence the volume of data to be processed is also likely to have a major bearing on frequency, for instance the countries referred to above requiring daily returns have fewer than 100 pension funds. There may also be a difference in the frequency of reporting between DB and DC systems, as the latter may require greater supervisory emphasis on the quality of record keeping, the timeliness of investing contributions and the quality (or legality) of investment decisions.

Information technology

50. There are strong reasons for requiring entities to submit returns electronically, by transferable media or through the internet. In particular, it is quicker and probably easier for the supervised entity (so long as the return is well designed). It also cuts out the errors likely to arise if information has subsequently to be keyed into the supervisor's software and enables some automatic validation of data without supervisory input; for instance, if the entity tries to enter non-numeric data into a numeric field.

51. The most important reason, however, is the volume of data involved. For example, supervisory authorities in Australia (Australian Prudential Regulation Authority - APRA) and Germany (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) ask for at least 1,000 data fields to be completed by each fund, while Mexico collects 40-45 million entries a month and the UK has 459 possible fields from its 84,000 annual returns. The Reporting and Publishing Portal of BaFin permits delivery of electronic documents and files via a secure Internet connection (see example below).²⁰ Where national legislation does not mandate electronic filing the supervisor

20 The Reporting and Publishing Portal of BaFin permits delivery of electronic documents and files via a secure Internet connection (HTTPs or SSL). It uses advanced certificates pursuant to section 2 no. 2 of the German Digital Signature Act (Signaturgesetz – SigG) for authentication on BaFin's and the reporter's sides. This service is intended for those providers who would like to meet BaFin's notification, reporting and transmission requirements on the basis of a simple and secure electronic data exchange system. In their present stage of development the services offered provide for the delivery of files and the downloading of procedure-related transaction and processing logs. In addition to the documentation provided, you may seek assistance on any technical questions and problems from our support hotline at mvp-support@bafin.de. The home screen of the MVP can be accessed on the BaFin website: <http://www.bafin.de/>. The overview page for companies is accessed using the "Companies" link. Once the transfer has taken place successfully, a success notification is displayed containing information about the transferred file. Figure 9 Success notification for a transfer to the MVP. This displays: name and size of the transferred file archive; time of transfer; status with success or failure notification; all the files contained in the archive, together with the packed and received file size and the unpacked file size, as well as the success status.

needs to be prepared for the costs and data quality issues associated with paper returns from entities unwilling to file electronically. That said, even where electronic submission is not mandated, this may not be a problem in practice, as pension plans and funds generally find electronic submission easier than hard-copy.

Figure 2. Reporting and Publishing Portal (MVP)

BaFin
Federal Financial Supervisory Authority

Reporting and publishing portal » » pruefberichte_test » » report submission » » results BaFin-Id: 50041101

Reporting results
Help

Navigation
Home
View logs

Reporting
Section 9 WpHG
Submit report
Verify report
Section 9 WpHG Test
Submit report
Verify report

Results for report transfer
BaFin ID: 50041101
Identity of user: CN=rootca1 rootca1:50041101:1017024, OU=test, O=Bundesanstalt für Finanzdienstleistungsaufsicht, C=DE
Name of process: Inspection Reports (Test)
Name of submitted file: test.zip
Filesize: 120 Bytes
Time of reception: 11-06-2008 13:50:05 CET
Message: File received and decompressed.
Success state: OK

Name of submitted file	Filesize			Success state	Message
	compressed	original	received		
test.txt	6	4	4	OK	

52. Good practice among IOPS members indicates that some specific technical issues need to be addressed where IT is used to collect and store data from supervisory returns, as set out in the box below.²¹

Box 4. – Good Practices using IT for Data Collection

- Data transfer methods have to be compatible between supervised entities and the supervisor and capable of supporting the necessary data flows. Many countries now rely on a File or Hypertext Transfer Protocol (FTP or HTTP) over a dedicated network or the internet which are more appropriate for faster and larger data collection.
- Security and confidentiality of data transfer is important where the internet (or other insecure medium) and some form of encryption, dedicated secure link or electronic signature should be considered.
- It is common to use a relational database management system to hold the data, however, irrespective of the way data is held, there need to be robust separately located back-up and disaster recovery systems.
- Given the volume likely to be held, and its potential use for many different purposes, the retrieval of data in useable form is vital. Most supervisors use a query facility, which some make available on-line and best practice includes the provision of dynamic query facilities i.e. it can be designed at the time a query is being made rather than being embedded.
- Where large quantities of data is involved, there can be value in requiring supervised entities to use compatible IT for data that needs to be submitted to the supervisor (as is the case for the supervisors requiring daily returns), although care should be taken not to over burden pension entities (especially smaller ones) with technological requirements that could increase costs borne by fund members.

²¹ See (IOPS 2007b)

Implementing supervisory returns

53. There are costs in setting up a supervisory return system, including design and implementation of necessary systems. A pilot exercise for the electronic return is also recommended good practice. Piloting the returning hard copy can minimise the risk that the data cannot be readily and reliably collected before implementing the electronic version, see Example below.

Box 5. – Example - Supervisory Returns

The UK Pension Regulator started with a paper-based plan or fund return, sent first to the largest DB plans or funds and later to all DB plans or funds with 5 members or more and larger DC plans. During this time the return was substantially shortened as it became clear the original version was too burdensome and that some of the information obtained was of limited value. Problems were also encountered with data quality due to errors in completing the return and data entry to the Regulator's database. Hence, an on-line web-based version was introduced which was quicker to complete and allowed possible errors or omissions to be identified immediately rather than picked up at a later stage. This was implemented within a project methodology, and the project included a survey of the views of plan or fund administrators on design and other practicalities, as well as extensive testing and piloting. A dedicated telephone helpline was established to handle queries when the new return was rolled out. The work involved took longer than expected delaying the roll-out, but the supervisor took the view that delay would be justified by a successful launch, which was achieved.

54. Other good practice recommendations include implementation of the system in a phased manner within a structured project management framework. The following box provides a checklist, drawing on the suggestions made in relation to data collection by the IOPS team looking at good practices in the introduction of risk-based supervisory approaches,²² as well as material provided earlier in this section of the working paper.

22 See (IOPS 2007b)

Box 6. – Implementing Supervisory Returns

When designing a system for obtaining supervisory information through supervisory returns supervisors should:

- check that there are sufficient powers to require (timely) completion, preferably in the format and by the transmission mechanism desired ;
- keep the information to be collected to the minimum that is essential for supervisory purposes and cannot more efficiently or reliably be obtained from other sources;
- keep the frequency of the return to the minimum necessary to avoid serious consequences before risks are detected;
- explain clearly to all involved parties why the data is requested and to what use it will be put;
- consider how timely and accurate submission will be encouraged and enforced; making sure to have powers (legal requirements) to penalize late or erroneous submission, but considering persuasion, incorporating into risk-based analysis etc. in preference to fines and sanctions;
- make the return as easy as possible to complete and submit, possibly with a telephone helpline to answer queries;
- specify the required information carefully, design any form used in a user-friendly manner and pilot it;
- adopt electronic filing, but only once the return has proved itself on a pilot basis;
- consider rolling out the data collection process in stages (e.g. starting with larger pension funds first);
- consider slim-line reporting requirements for small funds;
- design robust and resourced processes for validating and handling the information; and
- apply a project management methodology to the design and implementation phase.

Reports commissioned from third parties

55. This heading covers:

- reports commissioned from qualified professionals (especially accountants and actuaries) on some aspect of a supervised entity that the supervisor sees as high risk;
- reports from out-sourced service providers; and
- surveys of supervised entities or others associated with them, covering quantitative data, aspects of (good/bad) practice or attitudes.

Reports from qualified professionals

56. These reports can be particularly valuable for supplementing the supervisor's resources, especially as it may not be cost-effective to employ sufficient high calibre professionals in-house to meet uncertain demands for their services. Their work is based on the application of professional secrecy roles (confidentiality) and can also help to provide independent evidence of problems at a supervised entity, thereby strengthening the case for the application of sanctions.

57. In some jurisdictions, such as the UK, legislation empowers the supervisory authority to require an independent report and to require the supervised entity to pay for it. Supervisory authorities may also be empowered to ask plan or fund auditors or actuaries to produce a routine report on specified matters, charging the cost of this to the plan or fund.²³

Reports from out-sourced service providers

58. It is common regulatory practice for supervisory authorities to require pension funds to obtain reports from out-sourced service providers, such as administrators and investment managers to pension entities on performance and activity. The authority may wish to consider whether these reports, or some elements within them, would also facilitate supervision, and accordingly may seek power to obtain such reports. For instance, reports on service standards could tell supervisors about risks of serious administrative problems, while reports on investment performance could alert them to risks to members' benefits or fund reserves. For a contract-type pension system, where key functions are out-sourced, supervisors can obtain information needed for risk-based supervision directly from a third-party contractor whose responsibilities include managing risks related to pension plan operation and fund investment.

Surveys

59. Surveys are of particular value where there are many supervised entities. They can provide reliable information on risks and practice from a sample of entities, hence reducing the need for approaches that involve obtaining information from the whole population. This information can be particularly valuable for systemic risk analysis and for performance measurement. Carefully focused surveys can also help the supervisor with the design and review of supervisory actions, such as issuing guidance and undertaking on-site supervision. The reports may be conducted on an anonymous basis not provide information for entity-specific action. [Example 5](#) in the Illustrative Materials section shows how the UK supervisory authority uses its annual governance survey and targeted surveys for these purposes. The Australian supervisory authority has conducted one-off surveys on pension fund returns by type of entity, and on pension fund fees, with a view to obtaining a better understanding of significant differences between types of fund and hence the nature of the risks to which fund members are exposed.

60. Where, as is likely, a supervisory authority does not have the resources or expertise to undertake reliable surveys in-house, it can commission a professional agency for this purpose. Ideally the company should have some expertise in occupational pensions (or at least financial services) as well as survey-based research. The supervisory authority still needs sufficient expertise in-house, however, to commission the

²³Such reporting could go further than statutory reporting to the plan, with the advantage of allowing the supervisor to fine-tune the requirement or, giving the professional a duty of care to the supervisor provide greater assurance on quality and easier redress where reports are erroneous. The attraction of such an approach is that it has the potential to generate better quality and more readily useable information while being easier and cheaper (for the supervisor) than requiring such information to be submitted in a regular return. For example in Australia, pension fund trustees must obtain from the appointed auditor a report on the audit of financial statements, compliance with legislative provisions, risk management requirements and the contents of the annual return to APRA, and must copy the report to the supervisor.

work, undertake quality control and interpret the findings in the context of its objectives and activities. In view of the need for in-house expertise and resource and the cash cost of the survey company, surveys may represent a significant cost. Care needs to be taken to get the design right and to cover subjects of greatest relevance to risk-based supervision (see following box).

Box 7. – Survey Good Practice

While they are potentially of considerable value, surveys are notoriously difficult to get right. Care needs to be taken in designing surveys to ensure that:

- the survey sample is sufficiently large and properly selected so as to be representative of the types of entities on which statistical conclusions are to be drawn;
- any sub-samples are also large enough to be representative, which may mean allowing a margin for error where the size of sub-samples only becomes known when the survey has been completed;
- the sample is drawn from the whole population in question;
- the survey is sufficiently easy to complete to minimize the risk that respondents refuse to co-operate – consideration may be given to telephone interviewing or on-line completion to facilitate participation or reduce costs, but both techniques have potential pitfalls;
- If co-operation is voluntary, at least, it is important that respondents are confident that their responses will be treated anonymously – which is more likely where a third party undertakes the work;
- if an annual survey is being used to obtain trend information (especially useful for performance measurement) changes to the relevant questions from year to year need to be avoided so far as possible;
- questions are unambiguous to the reader, not just the author; and
- the people answering the survey are in a position to give correct answers.

61. One key test of a good survey is a high response rate, as this improves the reliability of the data obtained. The lower the response rate, the greater the risk that the respondents are ‘self-selecting’, hence biasing the results. For instance, entities following good practice may be more inclined to respond than those not, in which case the result will suggest that practice is better than it is. Good design should help improve response rates as can requiring co-operation through the use of or reference to legislative information gathering powers.

62. It is important that the supervisor has sufficient information on supervised entities to be able to draw representative samples and contact the right people. Hence, sufficient basic data on the entities needs already to have been obtained by other means. That said, the survey process may prove useful in validating data already held. It is good practice to pilot the survey so as to identify and resolve sampling and comprehension issues. Once survey data has been obtained, care is also needed in interpreting the data and extracting the most value from it. In particular the statistical relevance of the findings, e.g. confidence level, needs to be clear and, where appropriate, results should be published in a balanced way.

Information from on-site supervisory activities

63. While on-site supervisory activities are more commonly seen as a supervisory tool than an information source, their value as a source of information should not be over-looked. The extent to which information gained from on-site supervisory activities can be used in place of other sources of data depends on the frequency and depth of such activities. Where supervisors visit all supervised entities regularly, they could provide the most important information source, and the authority’s systems could be designed around them. For example, APRA’s Framework for Prudential Supervision encompasses all

activities, supporting procedures, processes, systems and guidelines that are used in forming risk assessments and supervision strategies for regulated entities. However, it is unlikely that on-site work aimed at getting a better understanding of an entity's risk management and control system, would - while identifying weaknesses and mandating risk mitigation - remove the need for some types of mandatory reporting (for instance those aimed at fraud).

64. As well as informing the evaluation itself, information gathered on-site can form an important part of the supervisory authority's information gathering for strategy and planning purposes. Whilst also assisting in intervention design or risk assessment, especially if IT is used to make the information readily available in comparative form. Furthermore, while it is essential that a checklist mentality is not fostered among supervisory staff at the expense of exercise of judgement, the documents or templates used for recording of assessments made during the on-site visit can be designed in a way that is compatible with the supervisor's data storage, risk assessment and IT systems.

65. Some pension supervisory authorities have devised such questionnaires or check lists to guide and structure their on-site reviews (see examples 4a and 4b from South Africa and Kenya in the Annex to this report). Capturing the data so that it becomes useable and meaningful information, as such, can be achieved via these checklists or pro forma questionnaires. Whatever the approach, the information should be readily accessible, possibly using IT, for use in designing or reviewing interventions and for comparative purposes. Most data from on-site supervision is likely to be confidential, some highly so, and hence access controls are needed over it, especially where it is held on networked IT.

66. The information obtained from the scoring system can highlight areas of relative weakness that could be the focus for future supervisory activity. Supervisors, (for example in Nigeria) can also use such a scoring system to compare and track the performances of different entities in various aspects, and to enable the entities themselves to monitor their performance.

67. Information obtained during on-site supervision can also be invaluable in helping to validate information from other sources. This can involve not just cleansing quantitative information but improving qualitative information and understanding the conditions at the entity level, thus helping entities with the process of submitting supervisory returns. For instance, supervisory authorities in Australia (APRA) and Germany (BaFin) assess the pension fund's processes. This may involve sample testing the underlying data for accuracy, examining the process for completing returns, or discussions with internal or external auditors on their review of the accuracy of submitted returns.

Mandatory exception reports

68. This heading covers:

- whistle-blowing reports of breaches of legislation by plan or fund trustees or managers or professionals or service providers associated with pension plans;
- reports by plan trustees or managers, or indeed others associated with the plan or fund (such as sponsoring employers) of events that might increase the risk associated with the plan or fund;
- reports of DB plan or fund deficits or recovery plans intended to make good deficits; and
- reports of major changes to the information the supervisor holds on the entity that might result in a changed risk rating.

69. Mandatory reports that highlight breaches of legislation, or circumstances that may be of concern to the supervisor, can provide a valuable source of risk-oriented information. They can supply information on cases needing immediate investigation or help to enrich the risk assessment of individual entities. They can also inform systemic risk analysis. Whistle-blowing reports can be of particular value, see examples below.

Box 8. – Example – Whistle-Blowing

In **Turkey** the auditor appointed by the pension company is obliged to notify the supervisor of any circumstances that may endanger the existence of the fund and the benefits of the plan members.

In **Jamaica**, the actuary must submit a written report to the trustees, sponsor and the supervisor if there are reasonable grounds to believe that the circumstances of the plan have changed, are changing or are likely to change in such a manner as to materially and adversely affect the solvency of the plan. Furthermore, agents appointed by pension funds are also required by law to report to the supervisor on whether adequate control systems have been established to identify, monitor and manage the risk of pension plans under their management.

In **Poland** the depository bank (custodian) is required to inform the supervisor of any discrepancies in calculation of the net asset value and rate of return of the pension funds.

Others: examples of the four types of reports provided to the UK supervisor (The Pensions Regulator) and details of information submitted to the US supervisor as part of its Voluntary Fiduciary Corrections Program are included as an Annex.

Powers and scope

70. Unless the reporting framework has been designed in a risk-based and unambiguous manner, such reports can be a hindrance as well as a help. Too many reports covering matters not reflecting a serious risk can divert resources from higher priority activity, or make it harder to spot the really serious cases. In extreme examples, they may result in the data being ignored. For instance, for a few years all late payments into individual pension accounts had to be reported to the UK supervisor, subject to minimal materiality limits, resulting in tens of thousands of reports. Examining all of them would have been hugely resource intensive. Examination of a sample of these showed that they were nearly all erroneous reports with virtually none representing a material risk.

71. It may not be easy to specify clearly what whistleblowers should report. The UK supervisory authority's "traffic light" system for enabling potential reporters to decide whether there is a legislative requirement on them to report or not, shows one way of handling this issue (see example in the Annex).

72. It is in any case important for whistle blowing to be strongly encouraged. This means that whistleblowers (e.g. external auditors) should be protected from any repercussions. Regulations may set out that disclosing information to the supervisor in good faith does not constitute a breach of professional conduct on confidentiality or any other contractual restriction on confidentiality (as for instance is specified in Luxembourg). The supervisory authority may also need to monitor and take action cases where whistleblowers have not reported when they should have done. In Turkey, the supervisory authority seeks to assess whether the internal auditor's role of whistle blowing is performed properly by comparing the results of on-site visits and off-site supervision with the reports submitted by the internal auditors. In some other jurisdictions, (e.g. Thailand and Poland) the supervisory authorities monitor the performance of the whistle blowing role of the custodians and depository banks.

Data quality

73. There can be quality issues associated with mandatory reports, especially if standard forms are not used, and the information reported should usually be verified before there is a supervisory response. The supervisor may wish to check whether such reports are often incorrectly or unnecessarily filed, and issue remedial guidance as appropriate. Aggregated data from these reports can be of value to support strategy and planning and the supervisor should hold sufficient information about the reports received in an accessible, preferably IT enabled, format, while maintaining appropriate confidentiality.

74. If significant volumes of reports are expected, the design of the reports will affect how easily information can be extracted. Ideally, there should be some form of standard report which is transmitted in a way that is compatible with the supervisor's IT and business processes, albeit with an expectation that really urgent matters be reported immediately, by telephone or email.

Transaction reports

75. Transaction reports provide information that enables the supervisor to check for compliance with regulation. They have the benefit of giving the supervisor a full picture of supervised entity activity, and requiring their submission is likely to encourage entities to have effective control procedures over the transactions concerned so as to ensure that data is accurate, transactions are timely and regulation is complied with. This may provide particular comfort in recently introduced pension systems where supervisors may wish to check all significant transactions undertaken by pension funds to ensure that the system is reliable and address bad practices before they become ingrained. The supervisor's requirements for transaction reporting may also ensure that supervised entities follow best practice in their record keeping.

76. The supervisor may be able to obtain transactional data from other entities, such as financial market exchanges, to enable a cross-check of the data from pension funds. For instance, the supervisor in Brazil compares investment trades reported by pension funds with data from the State-regulated securities exchanges so that it can detect transactions that have been wrongly valued or undertaken outside the official system. The supervisor could also use transaction listings to cross-check pension fund data with that held by custodians.

77. As pension systems mature, supervisors should consider reviewing whether extensive checking of transactions remains necessary and perhaps narrow the focus onto those aspects of legislation where evidence shows there to be weaknesses or particular risks, or where compliance failures would be most damaging. For example, the supervisory authority in Turkey has progressively reduced the information it requires from pension funds as its confidence in their processes has grown. Rather than checking the full range of each transaction types, supervisors may focus their attention on higher risk transactions, such as related party transactions or derivative trades.

78. Transaction reports have many similarities with reports required from supervised entities, covered in an earlier section of this working paper, in that the legal powers for requiring such reports are likely to be similar and they involve the supervisor receiving large quantities of data on a periodic basis. The key distinction is that transaction reports are in a format designed for use by the supervised entity as part of its routine operations. Hence, the supervisor needs to implement sophisticated IT systems that can handle large quantities of data received frequently and undertake automated checking of compliance with legislative requirements and interrogation mechanisms that can identify suspect transactions. The supervisor also needs to ensure that supervised entities submit data electronically in a form that is consistent with the supervisor's systems.

Existing datasets and documents produced for non-supervisory purposes

79. The benefits of obtaining information from existing sources are that there are minimal additional costs to supervised entities, the requirement should already be well understood, there are in most cases no confidentiality issues to be managed, and there may already be some quality checks in place (e.g. audit) on which the supervisor can rely. Because the information is produced for other purposes, however, it may not meet the supervisor's needs and supervisors may wish to be selective in what they use, to avoid excessive processing costs. Furthermore, the frequency with which such information is produced is not usually within the supervisor's control. The supervisor may be able, or indeed expected, to act to ensure that mandatory required information is of sufficient quality, but has no control over other sources, which need to be treated with care (for instance, where others have undertaken surveys, the supervisor should consider whether they have selected the sample in an unbiased way that is large enough to support the conclusions being drawn).

80. The following seven categories are covered below:

- plan or fund annual reports and financial statements;
- other documents that entities are required to produce such as, plan or fund contracts, rules or business plans or funding agreements with the sponsor;
- aggregations of data or surveys undertaken by other government agencies, industry representative bodies or commercial organizations, including economic and demographic forecasts;
- reports produced as a matter of course by third parties that relate to individual pensions entities, for instance plan sponsor credit ratings and the work of financial analysts;
- media reports;
- complaints data, whether collected by the entities themselves, by the supervisor or by some form of ombudsman or complaints agency; and
- intelligence from other regulators, supervisors or governmental agencies, or foreign pensions supervisors.

Pension fund annual accounts (financial statements)

81. Pension fund financial statements are readily available source of information, and some supervisory authorities use them as a key source of pension fund financial data. They have the advantage that they have to be prepared for other (accountability) purposes and are subject to external audit.

82. Those supervisory authorities, for instance in Kenya, Slovakia and South Africa, that rely on them in place of annual returns can do so because regulations have specified the content of the statements so that they more closely meet the supervisor's needs. Moreover, in some countries (e.g. Slovakia) the supervisory authority may require the entity to have its financial statements re-audited by auditor different from the original one, in case any doubts about the reliability of audited statements arise. In case the doubts of the supervisory entity are found to be grounded, the costs of the re-auditing are borne by the entity, otherwise they are borne by the supervisor.

83. Other supervisory authorities find pension fund financial statements unsuitable for their purposes, for instance because they are not available on-line, are not prepared in a common format, are not timely

enough or are based on different assumptions than those the supervisor uses for risk assessment. They may nonetheless use financial statements for information it occasionally needs about the pension funds or their sponsors as a one-off exercise. Even if the financial statements are not used as a key information source there can still be value in the supervisor examining them. For instance, the supervisors in the Netherlands do not extract information from fund annual financial statements but do read the text of the annual report to obtain qualitative information on the state of the fund and the market.

84. While financial statements can disclose evidence of serious problems with the plan or fund, it may be more efficient to require plan or fund auditors to report such problems as they are encountered through an exception report. Where there is no such requirement, there is probably a stronger case for the supervisor obtaining and reviewing these documents. For instance, the supervisory authority in South Africa, extracts some information from annual financial statements for its risk assessment Early Warning System (EWS), in particular:

1. if the audit opinion is qualified or the audit report contains a disclaimer;
2. outstanding contributions exceeding 15% of total contributions;
3. any bank overdraft;
4. negative reserve accounts; and
5. whether the Fund has exceeded the prudential investment limits.

85. The South African example also illustrates the importance of the supervisor developing the appropriate IT to extract and analyse data in annual financial statements, especially where there is a substantial number of pension funds.

Other pension plan or fund documents

86. These can include plan or fund contracts and rules and documents disclosed to members may be worth obtaining to support a particular intervention or strategy. Their value for strategy, planning or risk assessment may be limited to the extent that they say what is *meant* to happen (in considerable detail) rather than what is *actually* happening (for which follow up may be required). Where there are more than a few supervised entities, selecting and aggregating the potentially useful information contained within these documents could be disproportionately hard work. A sampling approach may, however, be valuable. For example, in Turkey, the supervision of the disclosure of information is conducted on a complaint and random check basis. During the handling of complaints, the supervisory authority requests copies of the documents in dispute and assesses whether or not the pension company has complied with the relevant disclosure requirements.

87. The supervisory authority therefore needs to decide, on the basis of the above considerations, which information should be submitted by plans or funds or gathered routinely from other sources, and which should be obtained only as needed for a specific purpose. The authority usually has powers to demand such information and hence is free to make such decisions unless legislation requires its routine submission. In the latter case the supervisory authority may wish to decide what, if any, analysis should be undertaken as the information arrives and will need to find an efficient and effective way of holding the rest of the information against future need.

88. Instead of relying on the information submitted by pension plans or funds, supervisors may adopt a pro-active and selective approach to checking information that plans or funds put in the public domain. For instance, in order to ensure that the pension fund companies comply with the requirements of Annual

General Meeting announcements, the Hungarian supervisory authority (HFSA) searches their announcements on a daily basis. In 2007, the HFSA started to gather all announcements to be disclosed by pension fund companies regarding their AGMs from all pension funds and published them in one single edition of Financial Official Journal.

Aggregations of data

89. Aggregations of data, such as actuarial experience, economic forecasts and commercial surveys, may be provided by professional organizations or private companies. For instance, information on the performance of asset classes in which pension plans invest may be valuable in enabling the supervisor to benchmark investment performance so as to identify entities whose investment competence or risk management might merit supervisory attention. Aggregated information is most suitable for strategy and planning, where the overall picture is more important than the fine detail, and even then it is wise if possible to cross-check the data from other sources. The information may also help where the supervisory authority is becoming involved with new types of risk, or a recently established entity, and better information is simply not available or cannot be obtained proportionately or quickly enough.

90. The reliability of this data source depends on the methodology used and any bias injected by the body concerned. For instance, many supervisory authorities need data for the actuarial computations that underpin solvency calculations (or estimation of defined contribution fund outcomes). In well-developed economies, actuaries can rely on country-specific demographic tables and mortality rates (although they may have to modify them for particular pension plans or funds), labour statistics, discount rates, and so on. This may not be the case in emerging market economies, where the supervisory authority may need to seek to generate its own data from supervisory returns or specially commissioned exercises. All supervisory authorities need to recognise that national data or insurance data, even if available, may not be appropriate when applied to pension fund calculations due to systemic differences in the populations concerned. Using tables from nearby countries (or even worse, far away countries – often mortality tables from the UK, US or Canada are used without any analysis of their suitability) may be even more problematic. Supervisors should also be aware of classes of data which may not be present at all – a good example is data for mortality improvement which if not incorporated into actuarial valuations, could result in actuarial liabilities being underestimated.

Other sources of data

91. There may be greater value for the supervisor **where external agencies publish reports relating to individual entities**, such as sponsor credit ratings. While these may well be of value for systemic risk analysis and broad-brush entity risk-assessment, they are unlikely to be sufficiently reliable for entity interventions. The supervisor, in any case, needs to be alert to the risk that ratings may not be independent.²⁴ The work of financial analysts is more likely to be entity specific but still needs to be treated with care.

92. While **media reports** can be of dubious reliability they may provide indications of potential problems which have not been disclosed from other sources that may merit further investigation. For instance, stories about pending financial difficulties, re-structuring or mergers may pinpoint risks to the future ability of plan or fund sponsors to under-write plan or fund liabilities.

93. **Complaints data** can draw attention to administrative, governance or conduct of business failings in supervised entities, providing both qualitative information about the prevalence of such failings

24 It should be noted that regulation and supervision of credit agencies is currently under review (e.g. oversight for institutions operating within the European Union is likely to be introduced).

and qualitative information about potential underlying causes. Data collected by ombudsmen and similar agencies can be obtained as part of the information sharing arrangements with the bodies concerned (see below), although the supervisor may prefer to rely on the aggregate picture reported by the agency rather than analyse the raw data itself. Such data needs to be treated with care, however, as the picture may be distorted by the presence of ill-informed or unsubstantiated complaints and the actions of third parties, for instance media stories whipping up unjustified concerns. The supervisory authority needs to be very clear about the value if any that such data provides before investing time and resource into using it. [Example 1](#) in the Illustrative Materials section provides an example of how one supervisory authority uses such information.

94. Finally, **intelligence from other agencies** can be of considerable value, particularly where it covers the fitness and propriety of supervised entity management or points towards potential fraud or conduct of business failings. Unlike the other sources within this category, it is very likely that this information is confidential, possibly highly so, and hence it needs to be kept on very limited distribution within the authority.

IV. INFORMATION STRATEGY AND ORGANISATION

95. Given the number of reasons why supervisors may wish to obtain information, the number of potential sources and, indeed the number of risks that supervisors may wish to monitor or mitigate, supervisors would be well advised to devise an information strategy. As well as purpose, sources and scope, an information strategy could encompass:

- the need to balance cost to the supervised entities and cost to the supervisor;
- the need for prospective as well as retrospective information;
- how information is managed and held;
- the authority’s IT systems; and
- the need for confidentiality.

96. The matrix at Table 1 below shows what are most likely the best data sources for each type of information needed. In practice, however, strategies may vary according to the different types of risk which concern the supervisor and local circumstances. Some indication of the factors that may be considered is given below.

Table 2. Matrix showing how types of information required and sources of data may fit together

	Licensing, registratio	Off-site analysis	On-site reviews	Financial stability	Systemic Analysis	Information for members and beneficiaries	Performance measurement
Supervisory returns	√	√	√	√	√	√	√
Transaction reports		√	√	√	?	√	√
Pension fund annual accounts		√	√	√	√	?	√
other plan or fund information	√	√	√		?		
external aggregations & surveys					√		?
existing external reports, e.g. credit ratings		√		√	√		√
Intelligence from other agencies	√	√	√				
mandatory exception reports		√	√		√		?
On-site evaluation checklists & data		√	√	√	√		√
reports commissioned from 3 rd parties		?	√	?			
surveys				?	√		√

Source: authors

Balancing costs with benefits

97. Supervisors should seek to source the information they need in a way that is efficient for the supervisor and minimises the burden placed on supervised entities. Supervisors need in particular to decide what information needs to be obtained, analysed and stored in an accessible manner on a routine basis, and what information can be collected as the need arises. Given the costs involved in holding information, the latter approach may be more efficient but may constrain the supervisor from reacting quickly to crises as they arise. Which approach is adopted depends on the uses to which the information is put. There may in any case be value in using a variety of data sources to cross-check on the information obtained. For instance, qualitative information on supervised entities such as their governance arrangements may help explain trends evident from quantitative information. Equally, information from on-site supervisory activities may expose errors in data from other sources.

98. If a risk-based supervision approach has been adopted, the on-going costs and technical complexity involved in obtaining and handling information may be minimised by:

- keeping the number of entities required to submit information to the minimum needed to support risk-based supervision, or imposing simpler requirements on less material entities;
- restricting the amount of information sought to that which is essential or highly desirable for risk-based supervision, and cannot be obtained from other sources; and
- limiting the frequency of reports to that needed for effective supervision, bearing in mind that other sources of information may provide visibility between reports, and maybe varying the reporting frequency according to the materiality of the supervised entity.

99. Additional value can be derived from the information by combining data from different sources, so as to generate correlations and identify trends. For instance, cross-tabulating information on the quality of governance with data on, say funding levels or investment performance may enable conclusions to be drawn on the effectiveness of different aspects or types of governance.

100. Supervisory authorities may deliberately request information that supervised entities do not routinely hold, or hold in a different form, as a means of promoting better risk management or disclosure by the entities and hence driving up standards of risk management or disclosure. An example might be a supervisory request for enhanced reporting of the alternative investment classes held by pension funds in view of heightened concerns about counter-party and liquidity risks. As well as informing the supervisor's risk analysis, such a request would ensure that the information is visible to pension fund management and available for public disclosure.

101. Reports to the supervisory authority from supervised entities (be they returns, transaction reports or exception reports) are commonly prescribed in legislation. This may limit the influence that supervisory authorities can have over frequency, content and design (unless it is also the regulator). Supervisory authorities may wish to seek to influence the regulator so as to:

- restrict reporting requirements to matters that the supervisory authority considers to be necessary, ideally by giving the supervisory authority the power to define which risks are to be reported or to waive some reporting requirements where appropriate;
- have the freedom to design the format of reports; and

- encourage the use of transmission mechanisms that the supervisory authority can readily handle, for instance the use of web-enabled forms.

Prospective rather than retrospective information

102. Information such as stress-testing and assessments of the quality of fund governance may give a better picture of what will happen in future than historic data from annual accounts or returns, especially for risk-based supervision where monitoring, inspections and interventions are being designed so as to pre-empt risks materialising in the future.

Information handling

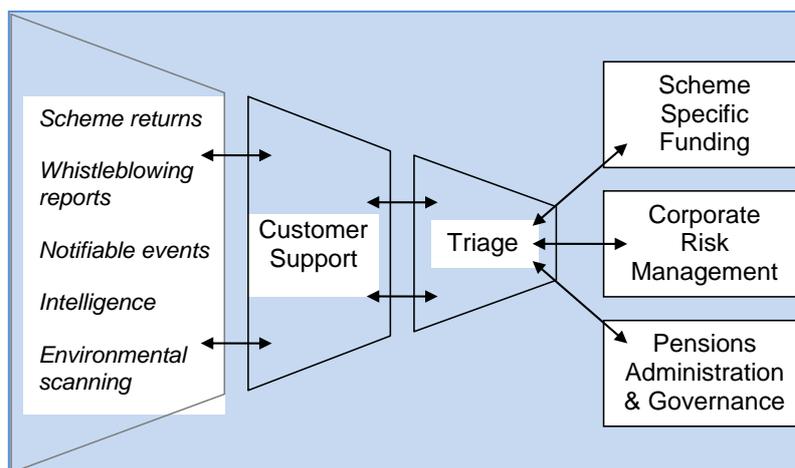
103. Information should be held in a way that enables it to be readily used for supervisory purposes, bearing in mind that some types of information have multiple uses. Failing to capture the data so that is readily available within the supervisor in future gives rise to the risk that important pieces of information, and hence risks, may be over-looked, or at least that the supervisor may have to subsequently seek information it already holds. The sourcing and management of information can be improved if each source and purpose has an owner within the authority. Supervisory authorities may also wish to assign overall responsibility for information to a specific individual or team. Their responsibilities could include some, at least, of:

- developing and overseeing the information strategy;
- sharing information on specific risks involving supervised entities or their managers with other agencies, both in the same country (e.g. other supervisors and criminal intelligence bureau and pension supervisors in other countries) subject to confidentiality restrictions;
- obtaining information from some other sources;
- maintaining information quality by ensuring records are up-to-date, conducting validation checks and cross-checking between different sources for consistency;
- maintaining a database of strategically important information, to be used across the organization to ensure consistency;
- ensuring that confidential information is kept confidential, and that there is an up-to-date published policy on confidentiality;
- analysing available data to identify new systemic risks or risks to individual entities;
- flagging up situations that may suggest an intensified risk to an entity;
- supporting inspection teams by providing them with the information they need;
- providing basic data for strategy, planning and research; and
- coordinating with industry to check that the process of information collection does not constitute a prohibitively high burden or could be mitigated in some way.

104. The UK Pensions Regulator's 'Triage' team provides an example of a team with many of these responsibilities (Figure 3). Even if information responsibilities are not fully centralized, there may still be

scope for some information co-ordination functions. For instance, the Australian supervisory authority (APRA) and German supervisory authority (BaFin) take an approach whereby analysis of off-site pension fund data is undertaken by the same team that undertakes on-site supervision of the fund. They use their off-site information and analysis to focus supervisory activity, in particular to determine areas for further investigation.

Figure 3: UK Pension Regulator’s Triage Team



Information Technology

105. The supervisory authority needs to ensure that its IT arrangements are consistent with its information strategy. IOPS experience is that IT should be used for data collection and reporting functions, but with the caveat that care should be taken not to overburden supervised entities with technological requirements.²⁵ Furthermore, the quality of information obtained may be improved by explaining clearly to supervised entities the importance and usefulness of the information and the purposes for which it will be used. Nonetheless, systems and checks are needed to ensure reliability and accuracy of the data collected, along with effective backup and recovery systems. The basic level of accuracy and consistency of data reported by entities should be ensured by building automatic cross-checks into the IT reporting systems and/or reports themselves.

106. Where large quantities of transactional information are obtained it is important that IT systems are established to enable basic checks of compliance with quantitative limits and processing timescales and to re-perform calculations. It may, however, prove too cumbersome to hold some detailed information in a central database. Instead, the information could be stored on some kind of case file, with just the file reference held centrally. Whatever the approach, the information should be readily accessible, possibly using IT, for use in designing or reviewing interventions and for comparative purposes.

Confidentiality

107. The information strategy should cover the need for confidentiality. It is important that sensitive information that is confidential to the supervisor and supervised entities is not released and is subject to strict security. Given the sensitivities involved in sharing information between supervisory authorities, it is common practice for them to establish memorandums of understanding with the other authorities, setting out when information can be shared and the confidentiality requirements to be applied.

²⁵ For further details see (IOPS 2007a)

V. CONCLUSIONS

108. Information is an essential pre-requisite for supervision. Supervisors need to obtain the right information in the right way if they are to be efficient and effective. It is highly desirable therefore that Supervisors give serious attention to their information needs and how they should be met. This involves considering the various purposes for which information is required. Risk-based supervisors need to also see the big picture as well as the position of individual pension funds. Different supervisors have different information needs depending on where the highest risks are to be found, the structure and size of the industry and the types of supervisory activity undertaken (e.g. whether there is licensing or on-site supervision).

109. Supervisory authorities need to consider all their information needs as a whole so that they can devise the most efficient and least burdensome ways of gathering data. Supervisors need to source:

- the information needed to licence or register supervised entities;
- information to enable off-site analyses of supervised entity circumstances and risks, whether for compliance or risk—based supervision;
- more detailed information on entity activities, behaviours or attitudes in relation to key risks where on-site reviews are planned and supervisory enforcement or other interventions may be required;
- quantitative information, including trend data, covering all or just significant entities, for systemic risk assessment purposes;
- information to share with pension fund members and beneficiaries; and
- additional information needed for performance measurement.

110. Supervisory authorities should seek to design their information requirements in such a way as to optimize the amount of information obtained by sourcing information that can be used for multiple purposes, and should avoid duplicating information requirements placed on supervised entities, and balance information requirements with the cost incurred in obtaining that information.

111. Supervisors need to put in place their own collection mechanisms. Depending on the depth and breadth of coverage desired supervisors can choose from periodic returns to the supervisor, reports commissioned from third parties surveys, and detailed transaction listings. It would be a very fortunate supervisor that could meet all its needs from a small number of sources, because they may supply information in the wrong format or may be insufficiently reliable for the intended purpose. All sources have some upfront and ongoing costs and bring with them technical and cultural challenges:

- Returns to the supervisor can be the most efficient source, as they potentially meet most of the supervisor's information needs. Care is needed to ensure the returns are designed to pin-point the precise information that is needed in a way that supervised entities can understand and the supervisor can rely on.
- Reports commissioned from third parties can enable the supervisory authority to obtain better information about entities, where that supplied routinely is suspect, or, in the case of surveys, obtain an overview of the prevalence of industry practices or risks without having to obtain data from every entity. They can be costly as surveys require careful design.

- Supervisors should not forget that on-site supervision is itself a valuable source of information, as well as a good means of validating the information supplied to the supervisor. There needs, however, to be a means of capturing the information in a usable form, such as checklists or scoring systems.
- Mandatory exception reports can be invaluable in identifying risks or non-compliance quickly, especially where there are significant gaps or lags in obtaining information on a routine basis. Care is needed in specifying the reports to ensure they are readily usable so that supervisors receive only reports on material violations.
- Transaction listings can supply even more data, and are of particular value where a supervisor is focusing on monitoring compliance and there are relatively few supervised entities. They may, however, require more processing, and there is merit in focusing the requirement on the types of activity where compliance failures are most likely.
- Supervisory authorities could consider seeking to maximize the proportion of their information needs that can be readily satisfied from existing sources (such as pension fund published financial statements, or the industry's own statistics) produced for non-supervisory purposes. In doing so, however, Supervisors need to recognise that there may be significant costs in validating the data and converting it into a usable format. In practice constraints on data quality and format may make much of this information more suitable for gaining a strategic overview rather than assessing risk at individual entities. There may also be value in supervisory authorities obtaining information from other government agencies which may pin-point risk or help validate the data gathered from supervised entities.

112. Supervisory authorities should keep their information strategy under review, bearing in mind that information needs can change as supervisory approaches and the pensions industry develop. In doing so they should recognize that there are costs to supervised entities in transmitting data in the right form for the authority and costs for the authority in handling and analyzing data and ensuring its completeness and reliability. Furthermore, procedures need to be in place to ensure that information is held securely in a way that is readily accessible to those who need to use it. There is merit in Supervisors establishing specific functions responsible for data collection, validation, processing and analysis, and maybe even a central function responsible for ensuring the right information is available in the right format and (only) to the right people.

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ANNEX: EXAMPLES

EXAMPLE 1: USE OF COMPLAINTS DATA FOR RISK-BASED SUPERVISION

Kenya: Retirement Benefits Authority

Legislation (Section 46 of the Retirement Benefits Act 1997) requires the Authority to maintain a database of complaints. This is called the Complaints Handling Database and is managed by the Authority's Compliance Department. There is a specific process documented for this purpose and includes provision of information, particularly the identity of both the complainant and the scheme or service provider who would be respondent in the complaint.

The Database supplies primary data for the purpose of risk based supervision which captures for each complaint a general category, currently:

1. Interpretation of the Law
2. Administration and/or record keeping
3. Benefits calculation/ payment
4. Other

It is anticipated that this information would then be used in two ways in respect of each pension plan:

1. One category of complaint(s) for a plan may attract a higher risk rating than another as it would point to a different level of operational or legal and supervisory risk.
2. An increasing number of complaints in respect of one scheme or service provider would serve as an early warning sign for the purpose of identifying plans that require intervention, as this could be an indication of lack of understanding of the trustees, poor operational systems or poorly informed members.

In considering the risk impact of this information, the supervisor would take into account any mitigating factors arising from the quality of the board of trustees and principal officer (their understanding of the law and other pertinent issues), the internal complaints management system and effective operational management systems (including management of outsourced services such as benefits payment).

While complaints would not generally capture information provided or 'tip-offs' from whistleblowers as provided for in Section 40 of the Act, these latter may be captured through a separate database which is also kept in respect of enquiries made on various issues relating to the operations of specific schemes or the pension sector in general.

EXAMPLE 2: MANDATORY EXCEPTION REPORTS

UK: The Pensions Regulator

All pension schemes have to regularly complete a pension scheme return for the regulator. Defined benefit and large defined contribution schemes receive a return annually while smaller defined contribution schemes may wait up to three years between returns. The Regulator's reporting requirements sit in primary legislation (PA2004). The two key provisions are sections 65 and sections 72 of the act which allow the Regulator to request in the scheme return 'other information which the Regulator reasonably requires for the purposes of the exercise of its functions in relation to the scheme' or request at any point 'in writing, require any person to whom subsection applies to produce any document, or provide any other information, which is relevant to the exercise of the Regulator's functions'. This enables the regulator to request a very high level of reporting from schemes though this is set against their commitments on minimising regulatory burden on schemes.

Whistle-blowing reports In addition anyone associated with the scheme (trustee, employers, advisers etc) has a duty to report to the regulator situations where they have reasonable cause to believe that a legal duty relevant to the administration of the scheme has not, or is not being met, and that it is materially significant. A report must be made in writing, as soon as reasonably practicable.

Late payment reports relate to reporting by the trustees or managers of a DC pension plan when the sponsoring employer has not paid over contributions due to the plan within a specified period. The reporting requirement is similar to that for whistle-blowing reports in that legislation requires trustees or managers only to report late payment of contributions "*where the late payment is likely to be of material significance to the Pensions Regulator*". Codes of practice help clarify the meaning of this phrase in a risk-based manner, by defining terms and providing illustrative examples of when and when not a report should be made. For instance, reports should be made where contributions are over 90 days late where this is not a one-off incident rapidly rectified, or where the delay reflects possible dishonesty, fraud, financial problems at the sponsor or systemic failings.

Notifiable events are designed to provide a warning system. Where a scheme is eligible to cover from the Pension Protection Fund (PPF) they have to alert the regulator to a potential employer insolvency or to problems with the funding of the scheme. This allows the Regulator time to try and help improve the situation before a claim on the PPF becomes inevitable. Notifiable events are scheme-related or employer-related. Trustees of schemes with a DB element have to report us when particular scheme-related events happen. Sponsoring employers of these schemes must notify us when particular employer-related events happen. The report must be made in writing, as soon as 'reasonably practicable' after the person becomes aware of the event.

- Transfers of more than 5% of scheme assets or £1.5 million
- Benefits to a single member of more than 5% of scheme assets or £1.5 million
- Decision resulting in non-payment of debt
- Payment of benefits on favourable terms
- Decision to relinquish control of employer
- Employer trading wrongfully
- Conviction of senior personnel
- Decision not to pay debt to scheme

- Decision to cease business in the UK
- Breach in banking covenant

Trustees must send to the Regulator within a reasonable period a copy of the recovery plan and the accompanying schedule of contributions. Trustees must also send a copy of a recovery plan that has been revised other than as a result of an actuarial valuation. Trustees must include with a recovery plan sent to the Regulator a summary of the actuarial valuation ('valuation summary'). This should include (mainly):

- asset value
- the technical provisions
- estimated cost of securing benefits with an insurance company
- the method adopted for calculating the technical provisions
- the principal assumptions on which the calculation of technical provisions has been based, including: investment returns; pension increases, pensionable pay increases; the mortality assumptions

EXAMPLE 3: INCENTIVISED EXCEPTION REPORTING

USA: Department of Labor Employee Benefits Security Administration

The Voluntary Fiduciary Correction Program

The US pensions regulator/supervisor, the Department of Labor, encourages employers and other fiduciaries to comply with their duties under pensions legislation by allowing them to report self-corrected violations of specified provisions of legislation in exchange for immunity from sanction, so long as full restitution is made for any member losses or benefits. The program covers violations such as incorrect contributions paid to the plan, illicit transactions with conflicted parties and incorrect plan expenses charged. In reporting these transactions, fiduciaries must supply specified supporting documentation.

A related program enables plan administrators a means of reducing sanctions for late or incorrect filing of annual returns, so long as they volunteer the information and take appropriate action to become compliant. This therefore incentivises submission of reliable and reasonably timely annual returns

There is a model application form. Its use is entirely voluntary, but the supervisor encourages its use to avoid common application errors that frequently result in processing delays or rejections.

These programs provide the supervisor with information on pension plan governance as well as improving compliance rates and behaviour, for minimal cost to the supervisor.

A similar approach is taken by the Internal Revenue Service (IRS) which has some supervisory responsibilities for pension plans. Their Employee Plans Compliance Resolution System ("**EPCRS**") program, permits Plan Sponsors to correct specified compliance failures and thereby continue to provide their employees with retirement benefits on a tax-favored basis. Insignificant failures can be corrected without penalty so long as the IRS is notified. Significant failures can be corrected without penalty so long as IRS approval is given. Extensive guidance is provided on the definitions of such failures.

EXAMPLE 4A: IN-DEPTH EVALUATION QUESTIONNAIRE

South Africa: Financial Services Board

Risk Assessment Questionnaire

	Question	Yes	No	Comment (where Yes or No is inappropriate)
1.	Investment			
1.1	Has the board established and implemented an investment strategy, which is available in writing and which has been signed off by the actuary to the fund?			
1.2	Who manages the investments: (a) An investment manager registered under FAIS other than the sponsor? (b) The sponsor (or a subsidiary of the sponsor)? (c) Fund itself (through a board or a subcommittee)? Kindly give the percentage of total asset value of the fund administered by each.			%
1.3	(a) Is investment performance monitored regularly? (b) Where you do monitor investment performance please rate your investment manager’s performance over the medium term on a scale of 1 to 5 (1 being excellent, 2 being very good, 3 being average, 4 being poor and 5 being very poor). Notes - Where the investment manger has managed your investments for less than 5 years, rate the full period for which investments have been managed - Where more than one investment manager handles your investments, please identify the investment manger and provide a score per investment manager.			
1.4	Is the investment strategy reviewed at least once a year?			
1.5	(a) Is there individual member choice over investments? (b) Where so, (1) Is each portfolio in which members can invest compliance with regulation 28? (2) Is there a default portfolio selected or managed by the trustees?			
2.	Administration			
2.1	(a) Is administration performed in-house by the fund itself or by employees or the sponsor ¹ , or by a specialist administrator which has been appointed by the sponsor with the primary purpose of administrating this fund? OR (b) Is the administration performed by a specialist administrator, which is independent of the fund or the sponsor? Note 1: The sponsor could be the employer, or a trade union in the case of a negotiated fund, or a bargaining council.			

2.2	(a) Over the course of the last financial year were there any arrear contributions? (b) Where so, (1) How many months worth of arrear contribution payments were reported to trustees? (2) Kindly express the arrear contribution as a percentage of the contribution collections. (3) Where any of these incidents handed over to the Directorate of Public Prosecutions? (4) Kindly express the amount of late payment interest as a percentage of the late contributions.			
2.3	(a) Has the board received complaints regarding the administration of the fund during the year (which will include benefit payments, answering queries, switching monies between investments and communication to members)? (b) Were the complaints resolved?			
2.4	(a) Is there a signed Service Level Agreement (SLA) between the fund and benefit administrator? (b) Has the board experienced any problems with administrative standards? (1) No, within the SLA (2) Sometimes (but not materially) over and above the SLA (3) Materially over and above the SLA (but you are satisfied with the steps being taken to address the problems) (4) Materially over and above the SLA and you are not satisfied with the steps being taken to address the problems (which should indicate that you will tender for replacement of the administrator as soon as practicable)? (c) Please rate your administrator on a scale of 1 to 5 (with 1 being excellent, 2 being very good, 3 being average, 4 being poor and 5 being so poor that you are intending to tender for replacement of the administrator (this must be completed even when administration is performed in-house)). Note 2: The SLA is the service level agreement with the administrator which will state time frames within which the administrator expects to perform (such as the making of different types of benefit payment).			
2.5	What benefit structure does your fund have? (a) Defined Contribution (b) Defined Benefit (c) Hybrid			
2.6	Has the administrator recently had any problems accommodating the benefit structure within its systems without manual intervention?			
2.7	After the lodgement of the claim, does the fund's administrator settle death claims: (a) within 6 months? (b) between 6 months and 12 months? (c) between 12 months and 18 months? (d) more than 18 months?			
2.8	Is the annual benefit statement compliant with PF Circulars 86 and 90?			
2.9	Were annual benefit statements issued to members/ pensioners?			
2.10	Is there any process in place to ensure that annual benefit statements issued via the employer or intermediary are			

	received by members?			
2.11	Have there been any complaints to the board concerning non-receipt of members/ pensioners benefit statements?			
3	Umbrella Fund and Retirement annuity fund questions (not applicable to ordinary funds)			
3.1	Does the sponsor subsidise the administration and /or trustees costs of the fund?			
3.2	Is the sponsor one of a group of companies which offers various financial services?			
4.	Management and Control			
4.1	Is the fund managed by a board with at least half of the members of the board elected by members of the fund?			
4.2	Does the board evaluate at least once a year: (a) Its own performance? (b) The performance of the Principle Officer? (c) The performance of consultants? (where applicable) (d) The performance of the benefit administrator?			
4.3	Does the board operate by means of a code of conduct which stipulates that the board members act independently of the sponsor and of their constituencies and with a duty to disclose any conflicts of interest? Note: where the fund has a code but the code or any associated documentation does not required you to act independently of your constituencies and the sponsor with full disclosure of any conflicts of interest the answer is 'no'.			
4.4	Were service providers appointed after a tender process involving competitive quotations?			
4.5	When was the last time the fund's services were put out to tender (in years) – please answer separately for each type of service below: (a) administration (b) investments (c) insurance (d) actuarial (where applicable) (e) benefit consultation (where applicable) (f) investment consultancy (where applicable) Note: where you do not use any of these services please leave it blank			
4.6	Do you have a contract with each service provider which specifies service levels and /or benchmarks by which the provider's performance will be measured?			
4.7	(a) Does the Principle Officer have the necessary experience? (b) Is the Principle Officer appointed by (1) the board? (2) the sponsor?			
4.8	Is the Principle Officer an employee of the sponsor?			
4.9	Where you fund is administered in-house, is the board satisfied with the information provided to them on service performance?			
4.10	Who developed your system?			

	(a) The administrator? (b) A software house which specializes in the development of administration systems for pension funds? (c) Other			
4.11	Is there any need for manual intervention in order to run your fund?			
4.12	Has the fund arranged adequate fidelity guarantee and indemnity insurance?			
4.13	Has the fund arranged adequate fidelity guarantee and indemnity insurance?			
4.14	Has the board performed a risk assessment exercise?			
4.15	Has the board a risk management programme in place?			
4.16	(a) Are there any indications of fraud being perpetrated against the fund? (b) Where so, how serious is it: (1) not at all serious (2) serious but manageable (3) very serious			
4.17	(a) Has the fund lodged any claims in terms of its fidelity insurance? (b) Has the fund lodged any claims against any service providers which have been settled by the service provider or the service provider's fidelity insurance?			
4.18	Please rate the performance of your (a) auditor (b) actuary (where applicable) (c) benefit consultant (where applicable) (d) investment consultant (where applicable) Please use a score of 1 to 5, with 1 being excellent, 2 being very good, 3 being average, 4 being poor and 5 being very poor.			
5.	Access to additional funding			
5.1	Is the employer able and willing to contribute additional money to the fund to meet any shortfall?			
6.	Financial Intelligence Centre Act (FICA)			
6.1	Are there processes in place to report suspicious or unusual transactions?			

EXAMPLE 4B: IN-DEPTH EVALUATION QUESTIONNAIRE

Kenya: Retirement Benefits Authority

Interrogatories – defined benefit schemes

Please complete this interrogatory to the best of your ability. If any response to a question needs further elaboration, please provide an explanation on the subsequent sheet.

1. **Investments risks**
 - 1.1 Have you prepared an investment policy statement?
 - 1.2 Has this statement been reviewed within the previous year?
 - 1.3 Have the investments been monitored regularly based on this statement?
 - 1.4 Are all the investment made in accordance with the regulations?
 - 1.5 Are any of the assets invested by an outside investment manager or other financial institution?
 - 1.6 Have you conducted an asset liability management review?
 - 1.7 Have you prepared an estimate of liquidity requirements and how these will be met over the short and medium term?

2. **Insurance risks**
 - 2.1 Does the scheme provide insurance or disability benefits, other than survivor benefits (e.g. lump sum death benefits)
 - 2.2 If such benefits are provided, are they insured by an insurance company?
 - 2.3 If such benefits are provided and are not reinsured, has a risk analysis been performed
 - 2.4 Are pensions paid from the fund or are they reinsured with an insurance company?

3. **Non-financial risks**
 - 3.1 Is the scheme administered internally?
 - 3.2 Is any part of the administration outsourced?
 - 3.3 Has there been any change to the arrangements in the previous year?
 - 3.4 Is an electronic data processing system used for administration?
 - 3.5 Are there any outsourcing arrangements?
 - 3.6 Were such arrangements selected at arm's length in a transparent manner?
 - 3.6 If the answer to 3.5 is yes, do you have written delegations, service standards and documentation related to the appointment of the outsourcing company(ies)?

4. **Board oversight**
 - 4.1 Is there a written governance document outlining the roles and responsibilities of the Board
 - 4.2 Have you completed the governance self-assessment questionnaire?
 - 4.3 Have all members of the Board of Trustees passed fit and proper tests?
 - 4.4 Have all Board members passed the tests required?
 - 4.5 Do you have a code of conduct for Board members?

5. **Operations and controls**

- 5.1 Do you have a written procedure manual for the operation of the pension scheme?
- 5.2 Do you have written risk control mechanism?
- 5.3 Do you have specific quality and timeliness standards, which are monitored?
- 5.4 Do you have a formal complaints resolution mechanism?
- 5.5 Do you have conflict of interest guidelines and a code of conduct for all members of the management?
- 5.6 Are any of your activities outsourced?

6. **Independent review**

- 6.1 Are independent professionals engaged to review the accounts and actuarial statements?
- 6.2 Is the appointment of these professionals reviewed regularly by the Board?
- 6.3 Have you changed any of these professionals in the past three years? If so, why?

7. **Fund²⁶**

- 7.1 Are any assets invested in securities of the plan sponsor, other than through a recognized securities exchange?
- 7.2 Do you perform dynamic solvency testing?

8. **Employer sponsor²⁷**

- 8.1 Have all employer and employee contributions been made to the fund within the time limits prescribed?
- 8.2 Are you taking a contribution holiday?
- 8.3 If the answer to 8.2 is yes, do you have mechanisms in place to monitor when the contribution holiday should come to an end?

26 Most of the information regarding this risk element will come from filings of financial statements and actuarial results

27 Again, financial data will also be used to evaluate this risk element, although there will be a considerable lag

Interrogatories – defined contribution schemes

Please complete this interrogatory to the best of your ability. If any response to a question needs further elaboration, please provide an explanation on the subsequent sheet.

1. Investments risks

- 1.1 Have you prepared an investment policy statement?
- 1.2 Has this statement been reviewed within the previous year?
- 1.3 Have the investments been monitored regularly based on this statement?
- 1.4 Are all the investment made in accordance with the regulations?
- 1.5 Are any of the assets invested by an outside investment manager or other financial institution?
- 1.6 Have you prepared an estimate of liquidity requirements and how these will be met over the short and medium term?

2. Insurance risks

- 2.1 Does the scheme provide insurance or disability benefits, other than survivor benefits (e.g. lump sum death benefits)
- 2.2 If such benefits are provided, are they insured by an insurance company?
- 2.3 If such benefits are provided and are not reinsured, has a risk analysis been performed
- 2.4 Are pensions paid from the fund or are they reinsured with an insurance company?

3. Non-financial risks

- 3.1 Is the scheme administered internally?
- 3.2 Is any part of the administration outsourced?
- 3.3 Has there been any change to the arrangements in the previous year?
- 3.4 Is an electronic data processing system used for administration?
- 3.5 Are there any outsourcing arrangements?
- 3.6 Were such arrangements selected at arm's length in a transparent manner?
- 3.7 If the answer to 3.5 is yes, do you have written delegations, service standards and documentation related to the appointment of the outsourcing company(ies)?

4. Board oversight

- 4.1 Is there a written governance document outlining the roles and responsibilities of the Board
- 4.2 Have you completed the governance self-assessment questionnaire?
- 4.3 Have all members of the Board of Trustees passed fit and proper tests?
- 4.4 Have all Board members passed the tests required?
- 4.5 Do you have a code of conduct for Board members?

EXAMPLE 5: PENSION PLAN GOVERNANCE SELF-ASSESSMENT QUESTIONNAIRE

Canada - CAPSA²⁸

As previously noted, pension plan supervision is mainly at the provincial level in Canada, but the federal government has jurisdiction in regard to a number of pension plans whose sponsors fall under federal jurisdiction in accordance with the Constitution. The Canadian Association of Pension Supervisory Authorities (CAPSA) acts as a coordinating body. Besides the self-assessment questionnaire (reproduced below), a governance guideline, as well as other useful supervisory material, can be found on the web-site.

<i>1. Fiduciary responsibility</i>	<i>Comments/Reference/Actions</i>
a) Have you identified your fiduciary and other responsibilities to plan members and beneficiaries? Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Have you identified any responsibilities to other stakeholders and noted any that are fiduciary? Yes <input type="checkbox"/> No <input type="checkbox"/>	
<i>2. Governance objectives</i>	<i>Comments/Reference/Actions</i>
a) Have you established governance objectives for the oversight, management and administration of the plan? Yes <input type="checkbox"/> No <input type="checkbox"/>	

3. Roles and responsibilities	Comments/Reference/Actions
<p>a) Have you identified your roles and responsibilities, including any necessary delegation, for the effective governance of the pension plan?</p> <p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>b) Have you clearly documented expectations for yourself and each of your delegates?</p> <p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
4. Performance measures	Comments/Reference/Actions
<p>a) Have you established clear measures for assessing the performance of all participants in the governance process who have decision-making authority?</p> <p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>b) Do you have a regular performance monitoring, review and remedial process for all participants in the governance process who have decision-making authority?</p> <p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	

5. Knowledge and skills	Comments/Reference/Actions
a) Have you established an ongoing process to identify the knowledge and skills needed for the effective governance of the pension plan? Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a process to fill gaps in knowledge and skills? Yes <input type="checkbox"/> No <input type="checkbox"/>	
6. Access to information	Comments/Reference/Actions
a) Have you and, as required, your delegates defined the information necessary to discharge your responsibilities? Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a process in place for obtaining this information accurately, quickly, clearly and in a suitable format? Yes <input type="checkbox"/> No <input type="checkbox"/>	

7. Risk management	Comments/Reference/Actions
a) Have you identified the pension plan's risks? Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a process to manage these risks? Yes <input type="checkbox"/> No <input type="checkbox"/>	
8. Oversight and compliance	Comments/Reference/Actions
a) Have you identified the legislative requirements, documents and policies that apply to the pension plan? Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a mechanism to ensure you comply with legislative requirements and pension plan documents and administrative policies? Yes <input type="checkbox"/> No <input type="checkbox"/>	

9. <i>Transparency and accountability</i>	<i>Comments/Reference/Actions</i>
a) Have you provided an explanation of the pension plan's governance process to plan members, beneficiaries and other stakeholders? Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Have you provided an explanation to plan members and beneficiaries of the process that will be used to address their questions and complaints? Yes <input type="checkbox"/> No <input type="checkbox"/>	
10. <i>Code of conduct and conflict of interest</i>	<i>Comments/Reference/Actions</i>
a) Do you have a code of conduct that sets out the required behaviour for you and your delegates? Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a conflict of interest policy to deal with your actual or perceived conflicts of interest and those of your delegates? Yes <input type="checkbox"/> No <input type="checkbox"/>	

<i>11. Governance review</i>	<i>Comments/Reference/Actions</i>
a) Have you established a process for regularly reviewing your pension plan's governance? Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have an effective process to resolve any inconsistencies or inadequacies in the plan's governance? Yes <input type="checkbox"/> No <input type="checkbox"/>	

EXAMPLE 6: SURVEY OF PENSION PLAN GOVERNANCE

United Kingdom: The Pensions Regulator

Good pension fund governance is important to the supervisor because promoting the good administration of pension plans is one of the supervisor's statutory objectives and because it is seen as a means of reducing the risks to members' benefits. With 55,000 pension plans, obtaining information on the quality of governance is no easy undertaking. While the supervisor's annual return captures some basic information, using it to obtain more extensive information about governance standards and problems is seen as being too burdensome on plans and involving too much data processing by the supervisor.

Instead, the supervisor obtains the information by means of an annual survey, which also has the advantage that questions can be changed from year to year to reflect changing perceptions of risk. The survey is used to provide essential evidence to:

- monitor pension scheme governance
- enable the regulator to be risk focused and proactive in its approach to scheme governance
- inform the supervisor's approach to education and guidance
- enable the regulator to make informed comment on standards of pension schemes' governance among trustee boards
- highlight how poor standards can cause risks to the security of members' benefits and how good standards can help minimise risks to scheme members' benefits
- enable the measurement and reporting of key performance indicators on governance.

The supervisor commissions a commercial survey organisation with pensions experience to conduct the survey using questions developed in conjunction with an advisory group of 17 experts drawn from across the private pensions community. The supervisor provides the organisation with details of sufficient plans to enable it to interview representatives from 500 plans allowing for some who for various reasons do not respond. The survey population is selected to provide a pre-determined range of plan types (i.e. DB and DC) and sizes. This sample size is sufficiently large to enable statistically valid conclusions to be drawn from the sub-sets and from cross-tabulations.

The content of the survey is adjusted to keep the duration of interviews, conducted by telephone using staff skilled in this technique, down to 25 minutes. Twenty pilot interviews are conducted to test respondent understanding of the questions (so that ambiguities can be ironed out) and the interview duration. The survey organisation sends an introductory letter on behalf of the supervisor to all potential participants, to underline the genuine, important and confidential nature of the study, and this acts as an important tool for boosting participation.

The survey includes factual questions about governance practices and self-assessment questions. The latter are contentious in that some commentators feel that they may give too rosy a picture. The supervisor and survey organisation believe this risk to be insubstantial, firstly because the survey results are confidential and only aggregated data is provided to the supervisor, and secondly because cross-tabulation shows a strong correlation between self-assessment and the incidence of 'good' governance practices in the plans concerned. Nonetheless, there may be scope to develop questions which 'force' more balanced and self-critical responses (a simple example of this might be to probe for the top three strengths as well as the top three weaknesses in the scheme's governance). Another option may be to conduct a small number of

qualitative face-to-face interviews, looking specifically at areas of concern and seeing where current practices fall short of a stated ideal of scheme governance.

The supervisor works with the survey organisation to present the results of the survey in a readily accessible report for use internally and publication. This shows the results of questions seen to be significant, once the results are known, with an indication as to whether trends or differences in performance between types or sizes of plan are statistically significant. Extensive use is made of correlations (cross-tabulations) between results to show how different aspects of governance are associated with each other and with assessments of performance.

The results of the surveys have been used to inform actions taken by the supervisor. For instance, survey results showing that many plans lacked basic procedures for managing conflicts of interest led to the supervisor issuing guidance on this subject.

EXAMPLE 7: INFORMATION REQUIREMENTS

Netherlands: De Nederlandsche Bank (DNB)

Each Dutch pension fund has to produce an annual report and financial statements within six months at the end of each financial year.

In addition to that, DNB's Financial Assessment Framework (FTK), requires each pension fund to provide an additional set of information which must be submitted monthly, quarterly or yearly to the supervisor as well. This additional set of information is submitted digitally by each pension fund to "e-line". E-line is an internet based application developed by DNB which enables swift further processing of this information.

The set of information submitted by each pension fund to e-line serves two purposes. First it enables DNB to analyze the financial status of the individual pension fund and secondly it enables DNB to analyze the key ratios of the Dutch pension fund sector as a whole.

By analyzing the key ratios of the pension fund sector as a whole, the individual pension funds can not only be compared to each other but also can be compared to the total population of pension funds in the Netherlands. As a result of this sector wide analyses, DNB is able to identify potential individual outliers versus the benchmark. As a result of this, DNB is able to develop views and form opinions on the state of the Dutch pension fund sector.

By using this sector wide analyses approach, DNB is able to analyze the most relevant matters and key ratios in a timely manner. Examples include the total costs of asset management activities, the risk profiles of pension funds and the losses sustained by pension funds during the financial crisis in 2008.

Dutch pension fund sector wide analyses on the impact of negative events further explained

One of items of the additional set of information that has to be reported is the calculation of the impact of negative events. These negative events are based on a probability 2,5% ("once in 40 years events").

The format of the internal reports provided by the information in e-line will look as follows where the value of 7.1 (the technical provision) is the amount of the loss that will be incurred based on the probability of 2.5 %.

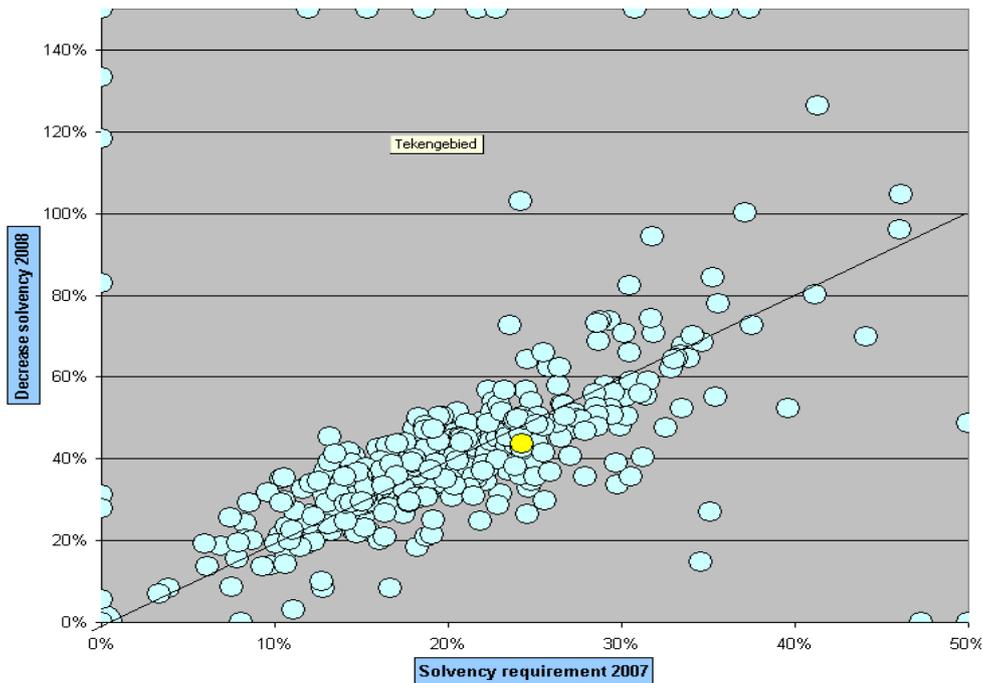
Calculation Regulatory own funds

	EFFECT ON ASSETS	EFFECT ON LIABILITIES	SOLVENCY LOSS
S1 Interest rate risk	-	-	-
S2 equity and property risk			
Equity - Mature markets	-	-	-
Equity - Emerging markets	-	-	-
Private equity / hedge funds	-	-	-
Property	-	-	-
Total equity and property risk			-
S3 Currency risk	-	-	-
S4 Commodity risk	-	-	-
S5 Credit risk	-	-	-
S6 Technical insurance risk	-	-	-
Regulatory own funds			-

S1 stands for interest rate risk, S2 stands for equity – and real estate risk, S3 stands for currency risk, S4 stands for commodity risk and S5 stands for credit risk and S6 stands for reinsurance risk.

The information within the DNB database will be transformed in to key ratios, in this case the key ratio is the loss as a percentage of the technical provision.

The relevant key ratios of pension funds can be compared in a number of different manners to each other. For in this example the loss based on a probability of 2.5% of what could have been expected before 2008 is compared with the losses that actually occurred during 2008. This sector wide key ratio analyses results in below graph where the different dots represent each individual Dutch pension fund.



This graph shows that there is a clear correlation between the expected losses and the losses that actually occurred in 2008. It can also be used to analyse how individual pension funds compare to the benchmark. Pension funds that deviate from the benchmark more strongly will more likely receive closer attention by DNB.