Draft IOPS Good Practices on Governance of Pension Supervisory Authorities

Nina Paklina– IOPS Secretariat

2nd IOPS Regional Workshop on Pension Supervision for CEE, CIS, CAUCASIA and Central Asia Regions,
10-11 May 2012
Skopje, Macedonia

www.iopsweb.org
Good governance remains a high policy priority topic for the governments around the world, placed in the heart of ongoing reform measures;

Recent financial crisis emphasized the importance of good governance and its role in preventing future market failures;

Key role of supervisory authorities in promoting and monitoring the adoption and implementation of sound governance practices by financial institutions, including private pension funds;

Among measures directed to reinforce the supervisory control over financial institutions, increasingly efforts are being made to strengthen internal governance of financial supervisory authorities.
IOPS Work in the area of the governance of the pension supervisory authorities

- The IOPS recognizes the crucial importance of good governance for pension supervisory authorities (as well as for private pension funds) and has undertaken research and policy work in this area;

- 2010: Publication of the WP 10 “Governance and Performance measurement of Pension Supervisory Authorities”;

- 2009-2010: IOPS Members have conducted a self-assessment exercise to check their compliance with the IOPS Core principles of Private Pension Supervision;

- 2011: the IOPS Members decided to develop Good Practices on governance for pension supervisory authorities, drawing on their past work and the work of other international organisations;
OECD Guidelines for Pension Fund Governance

- Major OECD project in the private pension field, released in July 2009 and available on www.oecd.org/daf/pensions
- Cover two key areas:
  I. Governance structure:
     1. Identification of responsibilities
     2. Governing Body
     3. Accountability
     4. Suitability
     5. Delegation and expert advice
     6. Auditor
     7. Actuary
     8. Custodian
  II. Governance mechanisms:
     9. Risk-based internal controls
     10. Reporting
     11. Disclosure
Results of (self)assessment exercise of countries’ compliance with the IOPS Core Principles

- Exercise conducted in 2009 and 2010; major results compiled in 2010
- 17 IOPS and some non-Members took part in the exercise
- Core Principle 10 is broadly to partially implemented
- **Main compliance issues:**
  - Governance code/Code of conduct specific to financial/pension supervisory authorities yet to be established;
  - Integrity of decision making process requires further reinforcement and streamlining;
  - Absence of formal internal control procedures and systems;
  - Internal procedures for performance measurement of supervisory activities are not yet in place.
Results of (self) assessment exercise of countries’ compliance with the IOPS Core Principles

- **Recommendations for improvement:**

- Supervisory authorities should:
  - be subject to strict governance requirements and should adhere to their own governance code;
  - reinforce the decision making process;
  - introduce formal internal review, consultation and appeal process;
  - strengthen internal control systems and risk management;
  - introduce formal procedures to assess the performance of supervisory authorities and the report evaluation results to the responsible ministry/legislature.
IOPS Draft Good practices on Governance of Pension Supervisory Authorities

- No agreed definition of good governance for public agencies in general and pension supervisory authorities in particular...

- A system of good governance should lead to:
  - good management and performance outcomes;
  - optimal use of public resources;
  - Strong engagement with relevant stakeholders and the public;
  - Ultimately should allow to fulfil efficiently its supervisory mandate and achieve main supervisory objectives;
  - Provide good quality supervisory services to pension community;

To operate efficiently should be underpinned with strong risk management and internal controls as well as independent audit.
IOPS Draft Good practices on Governance of Pension Supervisory Authorities (cont.)

- Generally accepted principles of good governance for pension supervisory authorities:
  - Independence
  - Accountability
  - Transparency
  - Integrity
  - Leadership
  - Efficiency and effectiveness
Key policy areas potentially covered by the IOPS Good Practices:

- Head of the Pension Supervisory Authority
- Governing body
- Governance code and managing conflicts of interests
- Decision making processes and division of responsibilities
- Internal controls and Internal and External Audits
- Appeal procedures
- Performance measurement and training
- Accountability
- Communication
IOPS Draft Good practices on Governance of Pension Supervisory Authorities (conclusion)

- Work in progress
- Second round of discussion of the Good Practices on governance of pension supervisory authorities to be held in Paris TC meeting, June 2012
- All IOPS Members are invited to actively contribute to this project and provide their input and experience for the preparation of the Good Practices
- [www.iopsweb.org](http://www.iopsweb.org)