IOPS Technical Committee

The Revised IOPS Principles of Private Pension Supervision

This document contains a draft proposal for the revision of the 2010 Principles of Private Pension Supervision of the International Organisation of Pension Supervisors (IOPS). This version, which has been extensively discussed by IOPS Members, is now circulated for public consultation with other relevant public authorities, international and other relevant organisations, pension private and research communities.

FOR PUBLIC CONSULTATION

Comments are welcome by 14th February 2025. Please provide them to Dariusz.Stanko@oecd.org, Nina.Paklina@oecd.org and iopsadmin@iopsweb.org

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REVISED PREAMBLE

1. The IOPS Principles of Private Pension Supervision have as origin an OECD Ministerial meeting held in 1998 on issues related to "maintaining prosperity in an ageing society". One of its main documents contained the first international principles on the "regulatory policies related to the private occupational schemes".

2. In 2000, the OECD Working Party on private pensions was created, followed by the creation of the "International Network of Pensions Regulators and Supervisors" (INPRS) in 2001. In 2004, the OECD issued the first set of its principles of occupational pension regulation. The pension supervisors members of the INPRS decided then to create in 2004 the International Organisation of Pension Supervisors (IOPS) and agreed on the first IOPS Principles in 2006, which were subsequently revised in 2010. Further revisions were discussed in 2017 but never confirmed. The IOPS Technical Committee started considering the need for revising the IOPS Principles at its November 2022 meeting.

3. The 2010 version of the IOPS principles related to

   1) Objectives
   2) Independence
   3) Adequate resources
   4) Adequate powers
   5) Risk-based supervision
   6) Proportionality and consistency
   7) Consultation and co-operation
   8) Confidentiality
   9) Transparency
   10) Governance

4. This revision introduces certain changes to almost all these IOPS principles as well as suggestions to add three new IOPS principles on "implementing the pension regulation", "monitoring and adaptability" and "assessment and implementation processes".

5. The objectives of private pension supervision focus on protecting the interests of pension fund (or pension plan) members and beneficiaries (hereafter 'members and beneficiaries'), and on promoting the stability, security and good governance of pension funds, two objectives being closely interconnected. Pension supervision involves the oversight of pension institutions and the enforcement of and promotion of adherence to compliance with regulation relating to the structure and operation of pension funds and plans, with the goal of promoting a well-functioning pensions sector.

6. These objectives include the support of the OECD Core Principles on private pension regulation:

   1) Conditions for effective regulation
   2) Establishment of pension plans, pension funds, and pension entities
   3) Governance
   4) Investment and risk management

5) Plan design, pension benefits, disclosure, and redress

6) Supervision

Principles Specific to Occupational Plans:

7) Occupational pension plan liabilities, funding rules

8) Winding up, and insurance; Access, vesting, and portability of occupational pension plans

Principles specific to Personal Pension Plans:

9) Funding of personal pension plans, wind-up and insolvency

10) Equal treatment, business conduct, competition and portability of personal pension plans

7. In addition, achieving stability within the pension sector is an important part of securing the stability of the financial system as whole (as investments made by pension funds have a major impact on the real economy in many jurisdictions). Pension supervision should in this respect be mindful of financial innovation. The pension supervisors are also encouraged to closely monitor potential financial and other risks that may arise from environmental, social and governance (ESG) factors, technological advances, external shocks and reactive policy responses which, in turn, may affect pension funds' governance, pension assets value or pension funds' investment management process.

8. The provision of pensions is of fundamental economic and social importance, ensuring the successful delivery of adequate retirement income. The effective supervision of pensions, and of the institutions that provide pension products and services, is required to ensure the protection of consumers – a necessary task with any financial product being sold to non-professionals. Pension supervision is required to achieve the degree of protection needed to support privately managed savings and is a means to help pensions manage market risks. Such risks can be particularly problematic with regard to pensions due to the characteristics of these financial products, such as:

- the long-term nature of the contract involved, and the subsequent requirement for incentives or even compulsion to overcome individual's 'myopia' towards long-term savings;
- their coverage of a wide social and economic range of the population (particularly where incentives or compulsion are applied);
- the low risk tolerance of pension fund members and beneficiaries, as subsistence rather than discretionary savings is often involved;
- the complexity of the products, involving tax issues, assumptions over future salaries, longevity, difficulty in the valuation of assets and liabilities etc. – a complexity which is beyond the financial literacy of most members and beneficiaries, and which gives rise to asymmetrical information between pension providers or financial intermediaries and beneficiaries;
- sometimes limited competition and choice, with decisions often made collectively by employers and/or unions; and increasing number of platform workers who lack support from employers and/or unions;
- their potential impact on financial market and economic stability given their large and increasing size relative to financial markets and countries' GDP;
- their 'social' as well as financial roles, which is becoming more important as reforms in many countries have given an increasing role to private pensions (through tax incentives and other public policy), as aging populations are in some cases making social security an ever-increasing burden on government resources, forcing public pensions to be reduced;

- the rapid pace of financial innovation which creates new, untested financial products;
- the increased complexity and sophistication of financial crime, including cyber crimes;
- the characteristics of the defined contributions plans and the specific issues they raise;
- the emergence of new risks related to climate change and digitalisation;
- the impact of major crises due to external shocks such as pandemics, natural catastrophes and economic and financial shocks;
- the ageing of populations.

9. As a consequence, pension supervision faces unique challenges: in terms of ***breadth***, including the number of pension funds or plans being supervised, the number of members and beneficiaries, the different types of pension products involved, and the fact that supervision may need to be coordinated across sectors due to the diverse nature of providers; as well as in the ***depth*** of supervision which is required, due to the vulnerability of members and beneficiaries and, in many cases, the mandatory nature of the system.

10. The supervisors are also facing challenges related to new developments, as for instance in the case of digitalisation. As mentioned in working paper N°40 (How can digitalisation make the supervision of pension plans easier and more efficient?), supervisory authorities widely agree that expanding the use of data, technology and digitalisation of supervisory tasks and processes is a fundamental priority. Authorities enhance their operations by continuing to invest in and embed data and are increasingly using advanced technologies, data-based and science-based solutions to support supervision. Adoption of innovative technologies (SupTech) is viewed as a necessity for efficient supervision and also as a catalyst for development of electronic (e-) Risk Based Supervisory (RBS) systems.

11. The adoption of new technology and data collection solutions have important practical benefits for supervisory authorities, supervised entities, other regulatory agencies, and users of financial services. These benefits include greater accuracy, quality and security of data; increased efficiency and reduction of costs; easier and more streamlined interaction and communication; and greater transparency and ultimately promotion of trust in the financial system and among financial agents.

12. However, there are hurdles to be overcome in order for SupTech to potentially help make supervisory operations more efficient, precise and fast paced to be realised. They include data quality issues; specific technical issues relating to the use of legacy IT systems and outdated technologies; problems entailed in the integration of the new SupTech tools into the existing IT infrastructure; operational challenges including cyber risks; lack of digital capabilities and skills among staff; alongside budgetary constraints; political risk, risks related to cross border data transfers, etc.

13. Similarly, recent development shows that, in their investment analysis process, pension funds, like other institutional investors, increasingly take ESG risks and opportunities into account. In the context of pension funds (schemes), such activity may be instigated by pension supervisors, fund members, investment managers or policy makers.

14. Pension fund members might be concerned about various issues in relation to companies the funds invest in, for example, environmental factors, fair treatment of the labour force or production of controversial weapons. Members may therefore exert pressure on a governing body to alter a pension fund's asset allocation. Managers of pension funds may be worried about the potential effects of the implementation of policy measures (new regulations) that may have adverse impact on the value of their investment portfolio. The drive for such change can also be prompted by existing regulations and the rapidly evolving initiatives of international organisations.

15. Regulatory frameworks in most of the jurisdictions tend to focus (via risk-based controls and prudential standards) on the governance of pension funds, including risk management systems, but still may not explicitly refer to ESG factors. The IOPS thus decided to develop a set of guidelines on the integration of ESG factors in the area of supervision of pension fund investment and risk management. They also propose an enhanced disclosure of ESG factors by pension funds.

16. Another example of a major development which is not accurately reflected in the IOPS Principles is related to the defined contribution (DC) plans, which have gained a prominent importance in numerous jurisdictions. The IOPS considered the impact of DC on supervision as early as in 2010, in working paper N°12 (Managing and Supervising Risks in Defined Contribution Pension Systems).

17. As reminded by the above working paper, the main difference between DC and other forms of pension arrangement is that individual members generally bear the risks which are inherent in the plan. These inherent risks include investment risk, operational failures, etc. Such risks are also present in defined benefit (DB) pension plans, but with DB or insured products, there is usually another party (such as the plan sponsor or provider) to make up "under funding" caused by investment losses or increased longevity, or to absorb fees and charges or costs from administrative errors. With DC plans, these factors all impact the "bottom line" of the accumulated account from which the individual member must fund his or her retirement – this adds up to the fundamental risk in a DC system, namely that individuals retire without an adequate, secure pension income.

18. With DB plans, the focus of the supervisor is on satisfying that the plan sponsor funds the plan sufficiently to ensure that the promised benefit will be provided. Investment risk, longevity risk, inflation etc. are all considered within the assessment of the solvency of the fund or plan. The supervisory approach will consequently focus on funding and solvency issues, looking at assumptions and often stress testing to assess whether benefits promises are likely to be met even under adverse circumstances. With DC systems the focus has to be on processes rather than outcomes as benefits are not guaranteed. The role of the supervisor is to ensure that the pension fund is managed in a secure way, as if the members themselves were undertaking the task. The supervisor's emphasis should be on risks that directly affect the fund members and could result in financial losses for them. As it is the member that bears the risk it is the member outcomes that pension supervisory are seeking to protect and the focus in looking at risks is to reach these optimal member outcomes. Such optimal outcomes would include appropriate contribution decisions, effective administration, appropriate investment decisions, relevant financial literacy, security of assets, appropriate decumulation decisions and value for money. Transparency and education mechanisms are key to help members who may not have the capacity to manage their pension plans.

19. Pension supervisory authorities are increasingly confronted with significant crises as a result of external shocks such as pandemics, natural catastrophes and economic and financial shocks, which affect the way supervision is conducted.

20. Though pension supervision has many unique aspects, the IOPS recognises that numerous pension supervisors work in integrated financial supervisory structures and it is therefore important that these IOPS principles are consistent with international principles covering other financial service institutions. The IOPS will therefore consult with other international organisations and align as much as possible its Principles with those of other organisations.

21. The new principles will thus take into account all the developments which have affected the pensions system and the lessons which can be learned from other international bodies; in this respect while most of them consolidated their principles with further standards and guidelines, the IOPS is expected to keep

a "light" approach where the focus of the revision will be on the IOPS Principles themselves, whereas the various guidelines and instruments will be compiled in an Addendum with related hyperlinks.

22. Pension supervisory authorities are encouraged to implement these IOPS principles and guidelines and regularly assess their relevance with a difference pace for the Principles and the guidelines. Moreover, supervisors are invited to periodically assess their compliance with the IOPS principles and guidelines with an aim of developing the most efficient protection for pension fund members and beneficiaries. The new principles will include a specific reference to the assessment processes.

Scope and Coverage

23. The IOPS Principles for Pension Supervision are designed to cover occupational and personal pension plans and/ or pension funds.[1] The preamble of the 2010 version of the IOPS principles reflects the fact that "Though these guidelines apply to private pension funds, it may also be considered good practice to apply similar standards to governmental funds". At this stage, the IOPS Principles focus on private pension funds only. In order to take into consideration the discussions currently held in the context of the revision of the OECD Core Principles on Private Pension Regulation, further adjustments to the IOPS Principles have been implemented, including the clarification that "Pension supervisory authorities should have operational independence and be endowed with the necessary supervisory and regulatory powers over private pension plans and other plans to which the supervision is applicable".

24. Pension supervision includes the monitoring of the activities of pension plans and funds to ensure that they remain within the requirements of the regulatory framework, essentially enforcing compliance with the rules.[2] Supervisory activities vary depending on the regulatory and legal environment, policy choices

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[1] IOPS Principles may not apply to those pension plans and pension funds in European Union countries which fall outside the scope of the Directive 2016/2341 of the European Parliament and the Council of the 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (recast) (for example pensions funded via book reserves).

The IOPS Principles do not cover insurance contracts as such (although they may be used in both occupational and personal pension plans). Principles for the supervision of insurance are provided by the International Association of Insurance Supervisors*: 'Insurance Core Principles, Standards, Guidance, and Assessment Methodology'*.

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

A pension (or retirement income) plan (arrangement or scheme) is a legally binding contract having an explicit retirement objective (or – in order to satisfy tax-related conditions or contract provisions – the benefits cannot be paid at all or without a significant penalty unless the beneficiary is older than a legally defined retirement age). This contract may be part of a broader employment contract, it may be set forth in the plan rules or documents, or it may be required by law. The elements of the pension plan may be mandated by law or statute or set forth as pre-requisites for special tax treatment, as in the case for many tax qualified savings or retirement programmes designed to provide the plan's members and beneficiaries with an income after retirement. In addition to having an explicit retirement objective, pension plans may offer additional benefits, such as disability, sickness, and survivors' benefits.

[2] Pension regulation encompasses all actions having the common objective of delineating the form, rules and standards that will define permissible organisations and activities, essentially establishing the parameters within which institutions will be required to function. Principles of pension regulation are provided by the OECD: *'Core*

and a variety of other factors. In general, they may be defined as influencing changes in pensions provision that contribute to the achievement of pension supervisory objectives, either through direct intervention or guidance. The scope of supervision can encompass any supervisory activity that is primarily concerned with ensuring the requirements and limitations imposed on pension funds or plans are adhered to.[3]

25. Pension Supervisory Authorities referred to in the Principles are defined as any entity, responsible in whole or in part for the supervision of pension funds, plans, schemes or arrangements in a jurisdiction or in the subdivision of a jurisdiction, whether invested with its own personality or not. The Principles are designed to cover the different types of supervisory structure (specialised, partially integrated and integrated). Private pensions are also organised in many different forms (defined contribution vs. defined benefit, mandatory vs. voluntary, etc.) and the pension systems of countries also differ greatly, having been shaped by many factors (from the nature of the state to the level of economic development, and the pension market structure). The IOPS has taken account of such diversity and intends that these Principles identify good practice which can be applied universally.

26. It should also be reminded that the IOPS Principles are voluntary and that their implementation takes into consideration the national circumstances.

Principles of Private Pension Regulation'. The IOPS Principles form a core part of the OECD standard, recognised and applied by the OECD.

[3] As reflected in the IOPS by-laws, supervision mainly involves issues related to the organisation, structure and functions of the supervisory body, the development of proper supervisory techniques and the implementation of enforceable regulations by supervisory bodies.

The summary of most pension supervisory objectives is reflected in the following statement which corresponds to the revised Core Principle 6 related to pension supervision of the OECD Core Principles of Private Pension Regulation which has been discussed and agreed by the IOPS Technical Committee. These objectives apply to the extent that they are within the individual mandate of the supervisory body.

OECD draft new Core Principle 6. Supervision

Pension supervision should focus on protecting the interest of pension plan members and beneficiaries while promoting the stability, sustainability, security, long-term investment and good governance of pension funds, pension entities and pension plans.

Effective supervision of pension funds, pension entities and pension plans must be set up and should focus on licencing, legal compliance, financial soundness and control, cost efficiency, minimum capital requirements, investment activity, good governance and integrity, actuarial examination, as well as member communication and education. It should also focus on monitoring the availability and effectiveness of complaint handling, dispute resolution and redress mechanisms and the supervision of those entities with the responsibility of operating or managing the plan, fund or entity. In case of defined contributions plans, a special focus should be devoted to transparency, information and member education, as well as risk management, product design, value-for-money, and decumulation processes. Consumer protection is an integral part of the supervisory objectives, especially for DC schemes.

Pension supervisory authorities, adequately staffed and funded, should be established in order to conduct, when relevant, off- and on-site supervision, in particular when problems are reported or identified. Pension supervisory authorities should adopt a risk-based approach, including in the efficient use of their resources. Adequate data should support the supervision of pension funds.

Pension supervisory authorities should have operational independence and be endowed with the necessary supervisory and regulatory powers over private pension plans and other plans to which the supervision is applicable, pension funds and pension entities, including powers over the functions that are outsourced. The supervision should include regulatory implementation, proportionality and consistency, monitoring, consultation, communication and co-operation, confidentiality, transparency and assessment.

Pension supervisory authorities should monitor significant developments in pension and economic areas and adapt as needed their supervision to integrate such developments including for instance environmental, social and governance (ESG) factors and Sustainable Development Goals (SDG), digitalisation, cybersecurity, gender issues or impact of natural and human made disasters.

IOPS PRINCIPLES

Principle 1: Objectives and responsibilities

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

1.1 A pension supervisory authority is defined as any entity, responsible in whole or in part for the supervision of pension funds, plans, schemes or arrangements in a jurisdiction or in the subdivision of a jurisdiction, whether invested with its own personality or not.

1.2 As the institutional basis for pension supervision may vary across jurisdictions (including between prudential and market conduct supervision, licensing and ongoing supervision, macro/micro level) the main responsibilities of the respective authorities must be clearly established. Any division of responsibility between supervisors should avoid gaps and inconsistencies and allow for effective communication mechanisms between the different supervisory bodies. The responsibilities of the pension supervisory authority should be clearly and objectively stated, giving a clear mandate and assigning specific duties. Such responsibilities should be stable over time.

1.3 The principal strategic objectives of the pension supervisory authority should be clearly and publicly specified. They should include a focus on the protection of members and beneficiaries' interests.

1.4 Objectives should also be directed towards the stability, integrity and security of pension funds and plans, the sustainability of the pension sector as a whole, the financial stability, the promotion of good governance, facilitation of long-term investment and the encouragement of adequate pension provision. The increased economic and financial importance of pension funds should be kept in mind.

1.5 Effective supervision of pension funds, pension entities and pension plans[4] must be set up and focus on licencing, legal compliance, financial soundness and control, cost efficiency, minimum capital requirements, investment activities, good governance and integrity, actuarial examination, member communication and education. It should also focus on monitoring the availability and effectiveness of complaint handling, dispute resolution and redress mechanisms and the supervision of those entities with the responsibility of operating or managing the plans, funds or entities. In case of defined contributions plans, a special focus should be devoted to transparency, information and member education, as well as risk management, product design, value-for-money and decumulation processes.

[4] As defined in the OECD Classification and Glossary of Private Pensions.

Principle 2: Implementing the pension regulation

Pension supervisory authorities should implement and support national and relevant international pension regulation they adhere to

2.1 One of the main tasks of the supervisory authority is to implement national, regional and international regulation agreed in the economy where the authority has the power to process.

2.2 The pension supervisory authority, as a Member of the IOPS, endorses in this respect the OECD Recommendation on Core Principles of Private Pension Regulation and supports its dissemination and implementation. This includes the following OECD Core Principles on Private Pension Regulation:

- Conditions for effective regulation
- Establishment of pension plans, pension funds, and pension entities
- Governance
- Investment and risk management
- Plan design, pension benefits, disclosure, and redress
- Supervision
- Principles Specific to Occupational Plans: Occupational pension plan liabilities, funding rules
- Winding up, and insurance; Access, vesting, and portability of occupational pension plans
- Principles Specific to Personal Pension Plans: Funding of personal pension plans, wind-up and insolvency; Equal treatment, business conduct, competition and portability of personal pension plans

2.3 The pension supervisory authority should be involved as much as possible in the development of pension regulation it will subsequently implement.

Principle 3: Independence

Pension supervisory authorities should have operational independence

3.1 The pension supervisory authority should have operational independence from both political authorities and commercial interference in the exercise of its functions and powers.[5]

3.2 To ensure independence, stability and autonomy are particularly required at the senior director level of the pension supervisory authority. The nomination, appointment and removal of the head and members of the governing body of the pension supervisory authority should be done via explicit procedures and transparent mechanisms. The head of the authority is usually appointed for a fixed term (normally between 3-7 years) with subsequent reappointment allowed (including in order to retain skilled practitioners). Any exceptional early replacement of the head of the pension supervisory authority and members of the governing body for reasons other than non-performance of their duties, significant misconduct or in accordance with provisions in relevant legislation, should be avoided and reasons for replacement should be publicly disclosed.

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

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

[5] Operational independence is taken to mean that at the day to day operational and decision-making level the supervisory authority has autonomous management of its activities. There may be an intermediate stage where Ministerial approval is required for enforcement actions that involve removal or deregistration of an industry participant.

Principle 4: Monitoring and Adaptability

Pension supervisory authorities should monitor any development of significant relevance to their functions and adapt the latter accordingly when necessary

4.1 The pension supervisory authority should regularly monitor any development related to the pension system which may have an impact on the supervisory approaches. In this respect, it should attempt to take advantage of the IOPS exchanges of information and any other relevant channels. Dedicated resources and powers should be allocated, to the extent possible, to this monitoring and adaptation of the supervisory methods and processes which may emerge from the new development.

4.2 It is very important that the pension supervisory authority has the resources and powers to adapt to the numerous development it may face, for instance:

- economic, social and financial crises including pandemics and disaster risks, either man-made or natural;
- significant new technological development such as the increased digitalisation of societies;
- significant new development in the way pension funds interact with the economies including through their investment;
- significant new development in the context of Environmental, Social and Governance (ESG) factors and Sustainable Development Goals (SDG) and their related impact on pension funds' activities;
- the demographic shift towards ageing populations in the majority of global economies.

4.3 When adapting its supervisory functions, the pension supervisory authority should consult relevant stakeholders as much as needed.

Principle 5: Adequate Resources

Pension supervisory authorities require adequate financial, human and other resources

5.1. Pension supervisory authorities should be granted adequate staff and access to resources.[6]

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

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

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

5.5 Special attention should be provided to developing and maintaining a sufficient level of ongoing staff training on new issues that the supervisory authority may face in performing its functions, including increased digitalisation of pension systems, the integration of ESG factors in investment and risk management by pension funds, the impact of crises due to external shocks such as pandemics, natural catastrophes and economic and financial shocks.

5.6 If its own capacities are insufficient, or for other reasons deemed necessary, the pension supervisory authority should have the authority to outsource supervisory tasks to third parties (e.g. auditors, actuaries), or to second ('borrow') staff with appropriate experience to work internally – though the supervisory authority remains responsible for the supervisory process and decisions. Where pension supervisory functions are outsourced to third parties, the pension supervisory authority should be able to ensure they maintain the required level of confidentiality, assess their competence, monitor their performance and ensure their independence from the pension fund or any other related parties in order to avoid conflicts of interest. If required, the pension supervisory authority must have the ability to take actions against these third parties either directly or through the appropriate professional body. Decision-making and the application of sanctions, within the scope of the pension supervisor, should not be outsourced.

[6] For details see *IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions* and *IOPS Guidelines for the Supervisory Assessment of Pension Funds*.

Principle 6: Adequate Powers

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

6.1. Pension supervisory authorities should be legally empowered to undertake supervision and should be granted adequate powers and the capacity to exercise these powers.[7]

6.2 The pension supervisory authority should have the power to conduct necessary supervisory functions, according to the nature of the pension system being supervised. Powers should allow for relevant off-site and on-site inspection.

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

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

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

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

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

6.8 Pension supervisory authorities should have the power to take exceptional measures, if needed, in times of acute financial and economic difficulty and /or volatility (for example, increasing reporting requirements, strengthening stress tests, or temporarily suspending certain regulatory or supervisory requirements which may have a pro-cyclical, adverse impact on financial markets in the short-term). The exercise of such measures should be facilitated by relevant resources.

[7] For details see IOPS Guidelines as above.

Principle 7: Risk-based Supervision[8]

Pension supervisory authorities should adopt a risk-based approach

7.1 In order to use their resources efficiently, pension supervisory authorities should adopt an risk-based approach, and a suitable risk-assessment methodology should be established.[9]

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

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

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

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

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

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

7.8 Where quantitative risk assessment tools are used by a pension supervisory authority, the models involved should be carefully designed and their limitations fully understood.

7.9 Risk-scoring models should reflect the risk-focus of the pension supervisory authority (which is driven by its objectives and resources), and may assess the net risk of relevant individual entity and/or systemic risk factors. These factors should be suitably weighted according to the nature of the pension system (including the size and number of pension funds overseen), and a risk-score derived from the probability and/or impact of their occurrence.

7.10 A supervisory authority should ensure that its risk-based approach, including the risk assessment methodology and any risk scoring models, is reviewed so that it remains fit for purpose and is achieving the

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

[9] For further details see IOPS Toolkit for Risk-based Supervision (www.iopsweb.org) and *IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions*.

outcomes sought by the pension supervisor. Such reviews may occur regularly or on an ad-hoc basis following a trigger event. The timing, formality and depth of the review shall be determined by the supervisory authority – based on its specific needs, size and complexity.

Principle 8: Proportionality and Consistency

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

8.1 A logical connection should be made between the results of the risk assessment undertaken by the pension supervisory authority and its actions (for example, through the use of a supervisory response matrix).[10] The remedial actions and if necessary sanctions imposed by the pension supervisory authority should be proportional to the amount of risk posed by the fund to its members and beneficiaries and the pension system as a whole - taking into account the nature, scale, complexity and seriousness of the potential compliance irregularities relating to the relevant party - and should represent the most efficient use of supervisory resources.[11] The long-term nature of pension funds should be taken into consideration and unnecessary pro-cyclical behaviour should be avoided.

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

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

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

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

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

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

[10] For further details see the IOPS Toolkit for Risk-based Supervision (www.iopsweb.org).

[11] *IOPS Guidelines for the Supervisory Assessment of Pension Funds*.

Principle 9: Consultation and Co-operation

Pension supervisory authorities should consult with the bodies they are overseeing and co-operate with other supervisory authorities domestically and internationally

9.1 The pension supervisory authority should consult, as appropriate and regularly, with the pensions sector when determining its approach to supervision.[12]

9.2 The pension supervisory authority should be empowered to exchange information with other relevant supervisory authorities, subject to legal and confidentiality requirements. This includes co-operation with other authorities or departments involved in pension supervision (for example, conduct of business supervisors or authorities supervising financial institutions providing pensions plans) or in pension consumer protection both nationally and internationally (particularly where cross-border pensions are involved), as well as with authorities responsible for maintaining the financial stability or supervising other relevant financial institutions or markets and law enforcement agencies. Co-operation should be for both efficiency purposes (avoiding overlaps and promoting economies of scale and scope) as well as promoting pro-active, preventative and corrective measures (e.g. tackling financial crimes).

9.3 Pension supervisory authorities should strive for strengthened coordination between financial sectors at the domestic and international levels to take place when necessary and particularly during periods of economic difficulty and financial system volatility, though confidentiality requirements should be met.

9.4 Pension supervisory authorities should support regular consultation with relevant stakeholders (including organisations which represent views of pension scheme members where appropriate) on new development.

[12] For further details see *IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions*.

Principle 10: Confidentiality

Pension supervisory authorities should treat confidential information appropriately

10.1 The pension supervisory authority should only release confidential information if permitted by law (with fines or even prison sentences imposed for breaches). Staff should be bound by internal codes of confidentiality during and after employment by the authority.

10.2 IT systems used by supervisors should include limited access restrictions to protect confidentiality and special care should be taken regarding the security of the supervisory authority's database for reasons of effective data protection, including through relevant programmes against cyber risks.

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

10.4 The pension supervisory authority, with regards to non-public information, should, when requested by the providing authority, keep information confidential and maintain appropriate safeguards for the protection of confidential information within its possession.

10.5 Where unsure of the status of the information, the pension supervisory authority should treat it as confidential if not publicly available or should check the status with the provider.

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

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

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

Principle 11: Transparency and communication

Pension supervisory authorities should conduct their operations in a transparent manner

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

11.2 The pension supervisory authority should be subject to regular (internal and external) audit[13] and reporting requirements which allow for the assessment of how well the authority is fulfilling its responsibilities and ensuring the mandate and functions of the pension supervisory authority cannot be changed on an ad hoc basis.

11.3 Where appropriate, the broad outlines of any supervisory response framework (such as an enforcement pyramid)[14] should be made public by the supervisory authority, so that its actions are well understood by supervised entities and not unexpected.

11.4 When directing or replacing the management of pension funds or plans pension supervisory authorities should explain and give due notice of the reasons for the supervisory action.[15]

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

11.6 Pension supervisory authorities should provide and publish clear and accurate information for the pension industry and the general public on a regular basis – such as the financial situation of the pension fund industry, investment performance and costs and fees, and observations on major development in the pension sector[16]. Disclosure will generally be on an aggregate basis, but could also be on individual pension funds, in which case the rules of confidentiality may be particularly relevant.

11.7 Pension supervisory authorities should put in place adequate communication tools and allocate related staff to communicate on their own actions and also on any relevant development from supervisory perspectives in the pension area.

11.8 Pension supervisory authorities should promote the dissemination of any relevant information to all stakeholders, with a particular focus on information (including projections) to beneficiaries of defined contribution schemes. Adequate financial education of these beneficiaries should be promoted by supervisors directly and through relevant stakeholders.

[13] For further details see *IOPS Good Practices for Governance of Pension Supervisory Authorities* (Good Practice 3).

[14] For further details see *IOPS Toolkit for Risk-based Pension Supervision (www.iopsweb.org).*

[15] For further details see *IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions*.

[16] For further details see *IOPS Good Practices on the Role of Pension Supervisory Authorities in Consumer Protection related to private pension systems*.

Principle 12: Governance[17]

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

12.1 Supervisory authorities should establish and operate sound governance practices in order to maintain credibility and moral authority to promulgate good practices in the entities under their supervision, including through the support of *independence*; *accountability*; *transparency*; and *integrity*[18].

12.2 Pension supervisory authorities should be overseen by a governing body of a manageable size and of high moral and professional standards. The remuneration of the senior executives of the authority may be published for transparency.

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

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

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

12.6 For interventions with serious impact on supervised entities, there should be some functional separation of duties between those proposing such decisions and those approving these decisions, so the scope for emergency action is balanced by a review process.

12.7 Pension supervisory authorities should develop processes and frameworks assisting them in facing major crises due to external shocks such as pandemics, natural catastrophes and economic and financial shocks. These can include: support and promotion of the need for early and clear communication and guidance to be provided by supervisors and supervised entities to respective stakeholders; to acknowledge the relevance, in these specific circumstances, of easing some regulatory constraints and providing temporary relief from certain requirements, but also the need to take into consideration the longer term interest of

[17] For further details see *IOPS Good Practices for Governance of Pension Supervisory Authorities*.

[18] Good governance of pension supervisory authorities can be summarized in four categories: ***independence:*** requiring clarification of the authority's responsibilities and powers, processes for appointing its governing body and the ability to secure resources and operate without undue influence; ***accountability:*** involving external audits, suitable internal organisation and measuring performance; ***transparency:*** ensuring that the authority's objectives and achievements are understood, and that a consultative relationship with industry is established; ***integrity:*** requiring codes of conduct, discretion to apply powers, internal controls and competent staff. For further details see *IOPS Good Practices for Governance of Pension Supervisory Authorities*.

pension beneficiaries and warn against actions which may lead to material worsening of the retirement outcomes of beneficiaries;

12.8 Further, it is important for supervisors to require that supervised entities prudently address risks including through the implementation of adequate contingency plans, and take steps to mitigate losses to reduce the impact on beneficiaries to the extent possible. Supervisors should preserve strong supervision of private pension arrangements and continuous close monitoring of actions undertaken by supervised entities.

12.9 Supervisors should consider policies with the objective of supporting the effective supervision of pension funds to protect scheme members' interests while contributing as well to other policies developed toward the stabilisation and recovery of economies. They should also coordinate private and public pension policies and strengthen their co-operation and co-ordination with other standard-setting bodies aiming at mitigating the impact of the crises on pension schemes, providers, members and beneficiaries.

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

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

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

12.13 Procedures should be in place for the governing body of a pension plan or fund to appeal to the pension supervisory authority or relevant tribunal for decisions taken by the pension supervisory authority that affect them and which they consider unreasonable or inconsistent with legal provisions. Individual members of staff at the supervisory authority should have indemnity from civil prosecution.[19]

[19] For further details see *IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions*.

Principle 13 Assessment and implementation processes

Pension supervisory authorities should regularly assess their implementation of the Principles

13.1 Pension supervisory authority should conduct regular assessments of their implementation of these Principles and share the results of these assessments with the IOPS Members. They should in this respect follow the IOPS "Methodology for review of supervisory systems using IOPS principles[20]".

13.2 The IOPS should assess the relevance of the Principles at least each eight years and earlier if needed.

13.3 The pension supervisory authority should use and disseminate in this respect the various guidelines and materials developed by the IOPS, sometimes in co-operation with the OECD. These guidelines are reflected in the Addendum to these Principles. As they address issues which may evolve on a more regular basis, the Addendum will be reviewed by the IOPS each four years, to possibly adapt existing guidelines, add new ones or delete outdated ones as needed.

[20] https://www.iopsweb.org/principlesguidelines/#d.en.192277

ADDENDUM

IOPS instruments complementing and implementing the IOPS Principles of Private Pension Supervision

- Good Practices for designing, presenting and supervising pension projections (2022)
- IOPS Statement on pension supervisory actions to mitigate the consequences of the Covid-19 crisis (2020)
- Supervisory guidelines on the integration of ESG factors in the investment and risk management of pension funds (2019)
- IOPS Good Practices on the Role of Pension Supervisory Authorities in Consumer Protection Related to Private Pensions (2018)
- IOPS Good Practices for Governance of Pension Supervisory Authorities (2013)
- OECD/IOPS Good Practices on Pension Funds' Use of Alternative Instruments and Derivatives (2011)
- IOPS Good Practices in the Risk Management of Alternative Investments by Pension Funds (2010)
- IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions (2009)
- OECD/IOPS Guidelines on the Licensing of Pension Entities (2008)
- IOPS Guidelines for the Supervisory Assessment of Pension Funds (2008)
- Methodology for IOPS Principles of Private Pension Supervision (2010) (& version FR)