

# Draft IOPS Good Practices on Governance of Pension Supervisory Authorities

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## Background

- 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](http://www.oecd.org/daf/pensions)
- Cover two key area:
  - 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



## IOPS Draft Good practices on Governance of Pension Supervisory Authorities (cont.)

- 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)