



**MINISTRY OF SOCIAL SECURITY
NATIONAL SECRETARIAT FOR PENSION FUNDS**

ACTIVITIES REPORT

2003-2007

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NATIONAL SECRETARIAT FOR PENSION FUNDS

ACTIVITIES REPORT 2003-2007

I – Introduction

Although the Complementary Pension System is not very familiar to most Brazilian citizens, it is very important for the country.

It is beneficial from the individual perspective since it provides additional benefit protection for its members in relation to the public social security benefits provided by the State.

It is also important from the social perspective given that it allows a significant number of members to receive addition retirement income benefits from pension funds in the event of an illness or old age in a way that it forms an expressive contingent of people who depend, to a lesser extent, on the State's social assistance programmes that supply, for example, free medication and medical assistance, thus allowing the government to spend its resources on the more needy segments of the population.

Therefore, it is extremely beneficial from the economic perspective since the resources accumulated in pension plans contribute to the national saving to be invested on a long-term basis, which helps to finance the economic development of the country.

Despite the importance of such factors, the present Federal Government was the first one in Brazil's post-democratization period to give emphasis to the development of the complementary pension system managed by pension funds. It is so much so that, when President Lula was still running for presidency in 2002, his governing plan already included, among other measures, the strengthening of the pension funds supervisory infrastructure.

Therefore, since the beginning of 2003, the Secretariat for Pension Funds (SPC) - subordinated to the Ministry of Social Security and responsible for the supervision of pension funds - has had all the necessary support so as to implement a set of measures to foster the solid development of pension funds given that the segment requires State regulation and supervision with the purpose to assert the retirement programs' success and the effective protection of members as well as to reprehend illegal practices and punish the accountable professionals in a more incisive manner.

The pension fund supervisory agency has, among other challenges, the attribution to supervise a wide variety of benefit plans modalities. Each benefit plan is designed to meet the characteristics of a mass of members. Each plan also offers different types of benefits (programmed benefits, risk benefits, temporary benefits, life benefits) and has its own costing plan and eligibility criteria (age, period of contributions, time of service, etc.).

After five years, despite the complexity of the supervised system and the structural difficulties found in 2003, one may observe that the measures adopted within the Secretariat's different fields of action have led to very satisfactory results.

In order to present the achievements of the 2003-2007 period, the Secretariat's performance was divided into topics: the licensing process for new funds or plans, the authorization process carried out before any alterations are made to pension funds' and plans' statutes and by-laws, the SPC's international insertion (fully implemented in the past five years) and the improvements made to pension market supervision and oversight, among others.

II – Prior Authorization Process

According to the Brazilian regulation, some acts have to obtain prior authorization from the SPC in order to be validated:

- Establishment of a closed entity of complementary pensions and alterations made in its statute;
- Establishment of a benefit plan and alterations made in its by-laws;
- Celebration of adhesion agreements between sponsors and pension funds;
- Transference of a benefit plan management from one pension fund to another.

Notwithstanding the above-mentioned attributions, the SPC, through its Technical Analysis Department, provides answers to consultations made by the various actors of the complementary system (especially pension funds). In the last five years, more than nine hundred consultations were answered.

Between 2003 and 2007 there was a consistent increase in the number of licensing processes analyzed, as shown in Table 1.

Table 1: Number of analysis performed by the Technical Analysis Department, from 2003 to 2007

| Year | Technical Analysis Performed |
|-------------|-------------------------------------|
| 2003 | 749 |
| 2004 | 1273 |
| 2005 | 1682 |
| 2006 | 3831 |
| 2007 | 2982 |

Source: SPC

Apart from the increased number of analysis performed, the 2003-2007 period was also characterized by an increase in the number of prior authorizations granted to

the establishment of new pension entities and plans and to alterations in entities' statutes and plans' by-laws.

Table 2: Number of licenses granted by the Technical Analysis Department from 2003 to 2007.

| Annual authorizations by type of request | | | | | | TOTAL |
|---|------------|------------|------------|------------|-------------------|-------------|
| Type of Analysis | 2003 | 2004 | 2005 | 2006 | 2007 | 2003-2007 |
| A – Closed Entities | | | | | | |
| Establishment of Closed Entities | 6 | 11 | 15 | 9 | 4 | 45 |
| Alterations to Statutes and By-laws | 57 | 135 | 59 | 87 | 40 | 378 |
| B – Benefit Plans | | | | | | |
| Establishment of benefit plans | 24 | 20 | 36 | 38 | 20 | 138 |
| Alterations in benefit plans' by-laws | 114 | 91 | 449 | 405 | 795 | 1854 |
| Benefit plans divisions | 0 | 1 | 1 | 11 | 5 | 18 |
| Benefit plans mergers | 2 | 5 | 0 | 9 | 2 | 18 |
| Changes in Management | 14 | 7 | 22 | 31 | 44 | 118 |
| Certification of by-laws designs | 0 | 0 | 0 | 9 | 0 | 9 |
| C – Sponsors and Instituidores¹ | | | | | | |
| Sponsor (or instituidor) Adhesion Agreement | 186 | 118 | 88 | 244 | 229 | 865 |
| Addition of new terms into an Adhesion Agreement | 0 | 0 | 0 | 0 | 31 | 31 |
| Sponsorship withdrawal | 10 | 23 | 53 | 14 | 82 ⁽¹⁾ | 182 |
| TOTAL | 413 | 411 | 723 | 857 | 1252 | 3656 |

Source: SPC / Date: December 31, 2007.

(1) The higher number of sponsorship withdrawal cases (the annual average number is 15) is due to the analysis of a greater number of processes that had been pending.

The increased number of analysis performed resulted from a series of measures such as:

- The emergency reframing of SPC in April of 2003, in which the General Co-ordinations were substituted by Technical Departments. There was also the reallocation of highly specialized professionals such as actuaries into the areas responsible for the analysis of different authorization requests, which allowed expressive gains in productivity;
- The incorporation of auditors into the SPC's personnel, including an emergency re-allocation of some of them into the Technical Analysis Department, in 2003;
- The establishment of the Technical Analysis Department, which resulted in greater celerity in process analysis since it unified the attributions

¹ Instituidor is the term used to refer to legal entities such as labor unions, class associations, etc. that establish pension plans based on associative ties for its members.

previously spread across two different departments and the Secretariat's cabinet.

- The structuring (2003) and adoption (beginning of 2004) of data processing tools in order to support the monitoring of authorization processes (document flow and deadline control). Such tools were then improved in 2006 and 2007.

As positive results of such measures one may note:

- The elimination of process stocks pending of analysis. In the beginning of 2003, the total number was of approximately 2000. Presently, there are about 80 processes to be analyzed, which brings process stocks back to regular levels according to the Technical Analysis Department;
- A significant reduction in the average time for individual process analysis (from approximately 18 months to 25 days);
- Statutes and by-laws update and adjustment to the new legislation, the inclusion of Portability and Differed Proportional Benefit policies and the discarding of obsolete contractual rules considered either obscure or ambiguous derived from the period set before 2001, during which the prior authorizations granted by the SPC were characterized by the analysis of formal aspects and disregard to the real merit of the terms contained in the statutes and by-laws.

III - Regulation

Basically, the pension fund system is regulated by:

- Presidential Decrees for matters related to the disciplinary regime applicable to individuals or legal entities that have committed offences against the sector's regulations;
- Resolutions issued by the National Monetary Council for matters related to investments of pension funds' guaranteeing resources and;
- Resolutions issued by the Management Board of Complementary Pensions for matters related to all the other aspects of pension fund operations.

Apart from issuing instructions to regulate operational aspects, the SPC elaborates models for regulations to be issued by other authorities and collegiate bodies. The Secretariat staff also provides office support services for the Management Board of complementary pensions – CGPC and its meetings (summons, writing of meeting minutes and publication of its decisions).

By the way, it is important to point out that the CGPC has been re-structured by a Presidential Decree in 2003, acquiring a more active and simpler composition and yet keeping the representation of civil society through the participation of pension fund

managers, sponsors, members and instituidores. This structural change was fundamental for the CGPC to actually put into force, in a democratic, technical and celery way, the provisions set forth by the 2001 Complementary Laws.

On one hand, the analysis of Table 3 shows the great regulatory efforts made towards the implementation of Complementary Laws n°. 108 and 109 dated from May 29th, 2001. On the other hand one may observe that from 2003 on there has been a significant gain in terms of normative stability, thus generating a predictable environment that contributes to the growth of the pension fund system.

Table 3: Number of resolutions issued by the National Monetary Council (CMN), CGPC and SPC over the 2001- 2007 period.

| Year | CMN Resolutions | CGPC Resolutions | SPC Instructions |
|------|-----------------|------------------|------------------|
| 2001 | 1 | 3 * | 3 * |
| 2002 | 2 | 10 | 14 |
| 2003 | 2 | 7 | 5 |
| 2004 | 0 | 7 | 5 |
| 2005 | 1 | 2 | 3 |
| 2006 | 1 | 7 | 5 |
| 2007 | 1 | 1 | 6 |

(*) as of May 29th, 2001.

Source: SPC/MPS

In regards to the **measures implemented from 2003 on** with basis on projects developed by the Secretariat, it is worth highlighting:

- **The normative reform for plans established by the *instituidor*** (based on associative ties). This reform allowed such plans provided for by the 2001 Complementary Laws to be finally be put into practice in 2003 and consolidated in the following years (CGPC Resolutions of March/2003, May/2004 and September/2006);
- **The implementation of guidelines for pension fund investments** that adapted the norms to new products and to the new reality of the Brazilian financial market (CMN Resolution of September/2003 and June/2007);
- **The implementation of Portability policies** foreseen by the 2001 Complementary Law, thus making it possible the transfer of resources between benefit plans upon the plan member's request. Implementation of self-sponsorship, lump sum withdrawal and differed proportional benefit policies as well (CGPC Resolution of October 2003);
- **The introduction of new features into the pension fund disciplinary regime** with focus on the accountable professionals and imposition of fines on such individuals instead of on the pension fund. The penalties for mismanagement may vary from warnings, fines, suspension or prohibition to the exercise of duty (Decree of December/2003);

- **The definition of pension fund governance, management and internal control principles, rules and practices**, which led to a real silent revolution in the way benefit plans are managed resulting in expressive gains in terms of security and transparency for plan members (CGPC Resolution **nº. 13, of October 1st, 2004**);
- **The establishment of a National Register of Benefit Plans – CNPB** which allowed all information related to pension funds to be generated and forwarded to the SPC. Such pieces of information were then gathered by benefit plan, no longer in a consolidated format in which the data related to different plans managed by the same pension fund were presented to the SPC in an aggregated manner, impairing transparency and supervision (CGPC Resolution of October, 2004);
- **The normative definition of pension plans modalities** (defined benefit, defined contribution and variable contribution). Such measure aimed to give different regulatory and administrative treatment to different plan modalities with basis on each plan classification (CGPC Resolution of November, 2005);
- **The review of technical-actuarial parameters to be used in the design of benefit plans** (mortality tables, interest rates, real benefit increase, etc) so as to ensure that the assumptions adopted reflect the profile of the mass of participants, thus increasing benefit plans economic and financial security (CGPC Resolution, March/2006);
- The adoption of a norm that aim to induce pension funds transactions in the fixed income market by means of **electronic negotiation platforms** so as to confer total transparency to market pricing and to prices actually adopted by pension funds in each operation, thus facilitating the monitoring and supervision by the SPC (CGPC Resolution of September/2006);
- **The consolidation and unification of deadlines for disclosing financial statements and other relevant information to plan members and the Supervisory Agency (SPC)** through the revocation of seven obsolete instructions and their substitution by only one new instruction. It caused the de-bureaucratization of pension funds and the supervisory body, more transparency in information disclosure to members and administrative cost reduction, not to mention the promotion of a more favorable environment for the development of the complementary pension system (SPC Instruction of January/ 2007);
- **The imposition of remuneration patterns and the institution of monthly reports to be written by liquidators, interventors and special administrators** designated by the SPC with the objective to promote a much more effective monitoring process and the optimization of the activities performed by such professionals (CGPC Resolution of February/ 2007).

Besides the above mentioned regulations dated from 2001, the constitutional pension reform of 2003 also set forth, in the form of ordinary laws, the voluntary

establishment of complementary pension regimes for public servants who hold effective job positions in the federal state and municipal levels.

It is also important to point out **the new tax treatment for pension funds** set forth by laws nº11.053 of 2004 and nº11.196 of 2005, which put an end to the sector's long time demands and gave way to a tax policy of long-term savings incentive that reflected the country's economic interests.

The establishment of **The National Superintendence of Pension Funds - PREVIC** remains as a challenge yet to be faced. The superintendence was created in December 2004 by a Provisory Law that, after three months (June 2005) lost its validity due to the lack of political articulation in the National Congress necessary to its validation. This situation postponed the adoption of important and necessary improvements for the complementary pension system.

As a matter of fact, the establishment of the above mentioned Superintendence had already been set forth by the Complementary Law nº 109 of 2001. Such provisions originated from a consensus reached by senators and congressmen in that year, which characterizes an act of improvement for the Brazilian Institutional framework instead of being considered an initiative of President Lula's government. It is so much so that the necessary legal apparatus for the establishment of this agency was provided for in the previous government. After having been unsuccessfully submitted to congress during President Lula's term, its establishment was once again officially recommended by a congressman affiliated to an opposition party during one of the meetings held by a relevant Congress Commission.

The need for the establishment of a pension fund supervisory body under the scope of the Ministry of Social Security derives from the increasing complexity of the supervised system and its expansion in absolute terms as well as from the growing number of new pension plans and funds, many of them multi-sponsored funds, associative-ties-based pension plans and the complementary pension regime for public servants.

IV – Supervision

The SPC is a supervisory body above all. Supervisory activities and prior authorization processes are the Secretariat's most important attributions.

The supervisory process comprises not only pension fund investments, but also the adequacy of benefit plans' actuarial assumptions (mortality tables, interest rates, etc).

Table 4: Number of auditors-supervisors, notices of infraction and supervisory processes from 2003 to 2007 (basis: December).

| Year (ref.: December) | Auditors- supervisors | Notices issued | Supervisory processes |
|--------------------------|--------------------------|------------------|--------------------------|
| 2003 | 31 | * ⁽¹⁾ | n/a |
| 2004 | 85 | 9 ⁽²⁾ | n/a |
| 2005 | 85 | 34 | 917 |
| 2006 | 109 | 67 | 151 |
| 2007 | 107 | 182 | 61 |

n/a – not available.

Source: SPC/MPS.

(1) Inexistence of a disciplinary regime (the presidential decree n 4.942 was published in 12/30/2003), auditors devoted to the analysis of more than 2000 pending pension fund related processes (new adhesion agreements and alterations in by-laws and statutes), implementation of indirect supervision; (2) new auditors under training.

As shown in Table 4, the supervisory landscape in the beginning of 2003 was precarious. There were only 22 auditors to supervise about 900 benefit plans with 188 billion reais under management.

There was not even a precise number of pending processes given the methodology used before 2003. At that time, the processes were subdivided and simultaneously analyzed by different departments of the Secretariat (actuarial, accounting, legal and investment departments).

With basis on a detailed survey on the total number of processes distributed to auditors-supervisors outside Brasília, it is believed that an estimated 917 processes were pending in the end of 2005 even though some of them had already had their analysis concluded. Despite the lack of precise data, it was estimated that about 1500 supervisory processes were waiting to be fully analyzed in the beginning of 2003.

Conversely, in the end of 2007, there were only 61 processes whose analysis needed to be concluded.

These numbers show a sharp increase in the total number of analyzed processes. Despite such increase, it is important to note that the supervisory department started to adopt a much more comprehensive analysis model from the qualitative point of view that contemplates not only the compliance with the present legislation, but also the quality of pension funds' internal mechanisms of risk assessment and monitoring

Such new supervisory methodology, although still under implementation, has already resulted not only in the issuance of a number of notices of infraction but also in a series of recommendations made to pension funds. It has helped overcome the traditional supervisory approach limited to issuing notices of infraction with basis on accounting or quantitative aspects only. The supervisory process has acquired a

preventive focus, providing incentives towards the improvement of pension funds' own internal control mechanisms.

The qualitative and quantitative improvements were achieved due to a series of measures adopted since 2003, such as:

- The restructuring of the Supervisory Department and upgrading of its organizational structure (from coordination to department) as well as the establishment of an indirect supervision area responsible for the analysis of pension fund data without the necessity of the supervisor's physical presence at the pension fund;
- The establishment of a new data bank to receive information on pension funds' financial transactions (directly or by means of exclusive investment funds) of public bonds, private shares and derivative markets and on benefit plans' accounting and actuarial information;
- The elaboration of a bill to regulate the disciplinary regime for pension funds, that is, to penalize professionals who commit irregularities in the complementary pension environment (this project resulted in the presidential decree n°. 4.942 from December 30th 2003, still applicable). Whereas the previous Decree foresaw mainly the imposition of fines to the pension fund (legal person), the new Decree sets forth penalties to be imposed preferably on the accountable individuals;
- An increase in the number of SPC's auditors by means of selections occurred in 2003 and 2005 and capacitating courses for the new auditors;
- Establishment and structuring of SPC's regional offices and the consequent decentralization of the agency's supervisory activities that began to be exercised in the regional branches (SP, RJ, MG, PE, RS and DF), leaving the top supervisory professionals allocated in Brasilia responsible for the coordination and unification of procedures;
- Implementation (still in course) of a risk-based supervisory model, a best practice in terms of bank, insurance, investment and pension fund supervision;
- The constant improvement of SPC's work force through a continuous training program directed to the agency's auditors, with special attention to the derivative market training program promoted jointly by the SPC and the Brazilian Mercantile & Futures Exchange – BM&F.

The positive consequences of the greater productivity, along with the qualitative gains achieved by the supervisory department are, as follows:

- The elimination of pending processes in the beginning of 2003;
- The accelerated analysis of supervisory processes, which helped to avoid new stock formation;
- The adoption of a preventive approach that allowed problems to be solved before any damages were caused to pension funds, members, sponsors and *instituidores*;

- Technical improvements in the supervisory procedures due to the greater availability of data concerning the benefit plans and pension funds under supervision and the continuous training undergone by SPC's auditors;
- The fomentation of an efficient internal control culture for the pension fund industry including the enrichment of the Supervisory Board role, encouraged by the CGPC Resolution n.º 13/04
- The more effective presence of the Supervisory Agency (**sentinel effect**).

Finally, it is important to highlight that after the Presidential Decree n.º 4.942 of December 2003, which set forth new administrative proceedings for the assessment of irregularities in the pension fund system, the attribution to adjudicate appeals against the decisions made by the Secretary of Pension Funds was given to the CGPC. Since then, the CGPC has analyzed 133 administrative and disciplinary cases until there were only 49 cases left by the end of 2007. The secretarial support provided by the SPC was fundamental for the achievement of such results (organization of meetings, process course and publication of decisions).

V – Data Banks

One of the greatest flaws of the Supervisory Agency in the period set before 2003 was the lack or insufficiency of reliable data to support the planning, regulatory and supervisory procedures of the Secretariat.

Practically all reports forwarded to the SPC by pension funds were sent in paper or in electronically forms composed of blank spaces to be freely filled out, which made it impossible to give them a statistical treatment, elaborate indicators or to make use of computerized, sophisticated tools so as to identify inconsistencies.

Due to this process, all pension funds' accounting, actuarial and investment reports had to be read one by one, involving great waste of time, high operational risk, process inefficiency and the impossibility to compare different pension funds and plans.

In order to correct this problem, some measures aimed at promoting the efficiency and safety of data banks have been adopted as part of the Complementary Pensions Modernization Program– PMPC, whose implementation will be concluded in 2010. Many of these actions had already been put into practice by the end of 2007, namely:

- New registration of all closed entities, sponsors and *instituidores* and improvement of the computerized system concepts;
- The establishment of the National Benefit Plans Register – CNPB with the purpose to strengthen the Patrimonial Independency Thesis among plans;
- The creation of a unique cadastral data base for all information systems with the objective to avoid redundant or contradictory information;

- A web-based, real time processing integrated collection procedure for cadastral and actuarial information pertaining to benefit plans;
- The implementation of data base applicable tools that allow the generation of reports formatted according to each sector's specific needs, which allows the elaboration of management indicators;
- The adoption of a documentation management system that enables the Secretariat to generate productivity reports and control the flow of demands and the employees' working hours;
- The adoption of safety and control mechanisms for data bank access.

As **positive consequences** of the improvements in the Information Technology Department, one may cite:

- Greater **emphasis on the benefit plan** as foreseen in Complementary Law 109/01, thus overcoming the previous paradigm of putting greater emphasis on the pension fund, which caused entities managing more than one plan to provide only consolidated information. It implied in lack of transparency in relation to the information provided on each plan individually, making their monitoring very difficult to the SPC and plan members;
- More **data bank consistency** due to more efficient data collection (via web instead of email), safety mechanisms and data bank access control;
- More **consistency of the generated reports**, given the unification of data banks and the consequent elimination of repeated information provision through different forms (accounting, actuarial, investments), which increased the risk for retrieving contradictory and ambiguous information in the data bank;
- As a consequence of the greater reliability of data, there has been a **better planning of the Secretariat's acts**, especially in regards to supervisory actions and the annual supervisory program.

In this regard, the SPC currently controls and maintains a data bank which contains information on more than one thousand benefit plans.

VI – Market Monitoring

Pension plans administered by pension funds are classified into three categories: defined benefit, defined contribution and variable contribution (hybrid plans). Presently, most plans fall into the two latest categories, but since defined benefit plans were the first ones to be established, these are the ones with the highest amount of guaranteeing resources, as demonstrated in Table 5.

Table 5 – Distribution of plan modalities and the total amount of guaranteeing resources managed by Closed Entities, in 2007.

| Type of Pension Plan | Total number | % | R\$ | % |
|------------------------------|--------------|----------------|---------------------------|----------------|
| Defined Benefit | 373 | 36,21% | 334.984.920.191,68 | 81,73% |
| Defined Contribution | 334 | 32,43% | 21.956.580.611,54 | 5,36% |
| Variable Contribution/Hybrid | 323 | 31,36% | 52.927.128.415,44 | 12,91% |
| TOTAL | 1.030 | 100,00% | 409.868.629.218,66 | 100,00% |

Source/Elaboration: SPC/MPS.

The SPC has also developed, throughout the last five years, a series of actions aimed at **monitoring pension fund investments** with the following objectives:

- **Identifying market tendencies** in order to assist the elaboration of studies and analysis of economic scenarios;
- **Identifying transactions that are more prone to negative outcomes** in order to support annual supervisory programs;
- **Supporting concrete and punctual actions taken by the supervisory department** in relation to pension fund transactions (and their categories) in the financial markets;
- Elaborating **projects for improving regulations** concerning pension fund investments.

In order to attain the proposed goals as well as to assure the means necessary to promote the capacitation of its staff, the following agreements and arrangements have been celebrated:

- Arrangement with CETIP - Custody and Settlement, in October 7th, 2003;
- Technical-operational agreement celebrated with the Brazilian Mercatile and Futures Exchange – BM&F, in December 2nd, 2004;
- ISIN Code Provision Agreement with the São Paulo Stock Exchange - BOVESPA, in 2003;
- Information Provision Term celebrated with the Brazilian Clearing and Depository Corporation – CBLC, in May 17th, 2006;
- Formalization of access to the investment fund data bank maintained by the National Association of Investment Banks – ANBID;
- Agreement with the Securities and Exchange Commission of Brazil – CVM, in November 23rd, 2005;
- Agreement with the Brazilian Federal Reserve Bank, in November 29th, 2007.

Such agreements, databanks and information technology tools allow the SPC to double-check the information provided by pension funds with basis on the information received from the Custody and Liquidation Centers and other supervisory bodies (especially CVM, and the Federal Reserve Bank) regarding specific transactions.

Presently, the Social Security Ministry Information and Technology Company- DATAPREV- has developed a system whose objective is to **automate the flow of**

information provided by the liquidation and custody centers which operate in the country.

It is still worth mentioning the development of SICADI - Investment Data Collection System - since 2004. From June/2006 on, all the information related to benefit plans' investments are electronically received by the SPC (paper forms are no longer used). The new system also enables the supervisory body to have a better monitoring of the entities' financial instruments on a monthly instead of a trimonthly basis.

Starting in August 2007, DATAPREV took over the operation and maintenance of SICADI following the Social Security Ministry orientation to transfer the responsibility for its corporative systems to that technology company. In 2008, the third stage of the system, whose highlight is the generation of management reports, will be implemented.

Concomitantly with the efforts made towards the collection and analysis of pension fund operations in the financial markets, in 2003 the SPC initiated a continued interlocution with pension funds' representatives, plan members and financial market's representative associations, having promoted a number of meetings with various technical commissions associated with the National Association of Investment Banks (Capital Markets Qualified Services Commission, Third parties' Resources Management Commission and Corporative Finances Commission) and with the National Association of Financial Market Institutions – ANDIMA. These initiatives have always aimed at the development of capital markets and the adoption of best practices to foster market performance.

The SPC has also been a guest participant in many meetings promoted by the Brazilian Association of Closed Entities of Complementary Pensions – ABRAPP. The Supervisory Agency has also played an important role in the Benchmarks Commission (ANDIMA) and in the Working Party on Public Bonds Secondary Market. The latter is composed by ABRAPP, ANDIMA and other federal agencies representatives (the National Treasury Secretariat, CVM, Federal Reserve Bank and SUSEP).

Even though the structuring of market monitoring is under development, some positive results obtained from the work performed by such commissions may already be identified, as follows:

- The subsidies for the elaboration of the resolution which set forth the guidelines for investments of benefit plans' guaranteeing resources (CMN resolution n°. 3.456 of June 1st, 2007);
- The indicators provided by the SPC's Supervisory department for the elaboration of the Annual Supervisory Program;
- The access to electronically received pension fund data granted to all SPC's regional offices provides auditors with detailed information on local pension funds before they actually perform on-sight inspections. This new dynamics includes the identification of aspects that demand closer attention, thus

reducing the auditors' physical presence in the supervised entity, promoting the improvement of the supervisory scope and consequently the optimization of material and human resources available for the supervisory duties;

- The elaboration of technical notes containing analysis of consolidated data regarding the investments performed in the pension fund segment.

VII – Fomentation

Besides the classical attributions of most supervisory bodies, i.e., regulation, supervision and databank maintenance, from 2003 on the SPC has also assumed the role of fomenting the development of the Brazilian complementary system, not only through the structuring of an adequate regulatory environment, but also through a set of measures aimed at achieving this specific objective.

In 2003, the General Coordination for Special Projects and Fomentation was created and in 2005 it was extinguished. During this period, it was responsible for promoting the complementary pension system and supporting sponsors and *instituidores* in the establishment of new benefit plans.

In addition to **regulatory measures** aimed at promoting an efficient and celerity performance on the part of the SPC, some measures devoted to the fomentation of the complementary pensions segment are worth highlighting:

- The participation of the National Secretary, Deputy Secretary and SPC Directors in hundreds of **conferences, seminars, presentations and technical panels** in the last five years;
- The elaboration of the leaflet entitled "**Complementary pensions: Instituidor plan**", whose objective was to be a source of information and encouragement for juridical persons authorized (with basis on the legislation elaborated in 2001 and enacted in 2003) to establish benefit plans for its associated members: labor unions, cooperatives, associations and class entities;
- The co-organization with ABRAPP of a round of **seminars for the introduction and promotion of pensions plans based on associative ties (*previdencia associativa*)**;
- The elaboration of "**The Member's Guide**", which gathers, in a very simple language, all the information and rights of members and beneficiaries of pension plans managed by pension funds.

As a result of the administrative, regulatory and fomentation measures adopted by the National Secretariat for Pension Funds since 2003, more than a hundred and fifty new pension plans have been established in this period. By the end of 2007, more than thirty new pension plans based on associative ties and over two hundred new

instituidores linked to different groups had also been established, totaling almost one hundred thousand members in this new pension modality.

VIII – Participation in Collegiate Bodies

Besides the institutional influence the SPC exercises as a Secretariat subordinated to the Social Security Ministry, the agency also has representatives in many Collegiate Bodies:

- CGPC – Complementary Pensions Management Board subordinated to the Ministry of Social Security;
- CNPS – National Board of Social Security subordinated to the Ministry of Social Security;
- CONAPREV – National Board of Social Security Schemes' Managers subordinated to the Ministry of Social Security;
- CSS – Private Health Insurance Chamber subordinated to the Ministry of Health;
- CNSP – National Board of Private Insurance subordinated to the Ministry of Finance;
- GTMK – Working Party on Capital Markets and Long-Term Savings (Common Finance, Planning and Social Security Ministerial Order n°. 210 of 2003);
- COREMEC – Regulatory and Supervisory Committee for Financial, Capital, Insurance, Pensions and Capitalization Markets subordinated to the Ministry of Finance (Decree n°. 5.685 of January 25th, 2006);
- COAF – Financial Activities Control Council subordinated to the Ministry of Finance; and
- ENCCLA – National Strategy against Corruption and Money Laundering subordinated to the Ministry of Justice.

Within the scope of the Collegiate Bodies, some matters are worth highlighting:

- Within the Social Security Ministry field of activity, apart from the technical and administrative support given to the CGPC, the SPC has also participated in the CNPS discussions on the elaboration of policies and strategies for general and special social security regimes;
- In the supplementary health insurance segment, the SPC has attended, as a consultative member, the debates on health insurance regulation since the Complementary Law n°. 109 of 2001 monitors more than fifty health plans managed by pension funds;
- Through the CNSP the SPC has taken part in many discussions related to Insurance, open pension regime and capitalization affairs, with emphasis on the enactment of CL n°. 126 in January/2007, which enabled the interruption of the Brazilian reinsurance monopoly.

- In the CNSP the SPC helped define the new solvency rules for insurance companies and open pension entities (2007);
- In the Coremec, established in 2006 by Presidential Decree so as to encourage the integration and exchange of experiences of four supervisory agencies - SPC, CVM, SUSEP and the Federal Reserve Bank - the Secretariat has played an active role in relevant discussions on the supervision of related markets, having assumed presidency of such commission during the first semester of 2007;
- During the period in which the Secretary of Pension Funds was the commission's president, the Coremec created a working party to work on a national strategy for financial education coordinated by CVM. The Working Party on Financial Education has been meeting regularly since then with wide civil society representation through the contribution of market agents supervised by Coremec's participating agencies.
- Also during this period, the SPC contributed to the establishment and assumed the coordination of a working party whose purpose was to develop a project to reform the legislation on banking secrecy so as to favor the exchange of information among Coremec's integrating supervisory bodies, thus improving their performance;
- Still in the financial segment, the SPC, through its activities in the Working Party on Capital Markets and Long-Term savings and Coremec, has taken part in a number of discussions on subjects like: the securitization of securities, capital markets guide plan, electronic systems for securities transactions, carbon derivatives, tax treatment for financial assets, access markets for small and medium-size companies, banking fees, administration fees for institutional and retail investors and risk-based supervision;
- In the ENCCLA, the SPC contributed to governmental actions against corruption and money laundering;
- In the COAF, besides having participated in the analysis and reporting of administrative processes, some SPC professionals were also responsible for making presentations and teaching courses organized by the COAF for police members as well as for the Federal Attorney's Office and Judiciary Branch employees.

IX – International Insertion

The SPC is presently the Brazilian delegate in four prominent international organizations:

- The Working Party on Private pensions of the Organisation for Co-operation and Economic Development (**OECD**) located in Paris, which brings together delegates from over thirty countries not to mention international organizations such as the IMF, World Bank and the International Social Security Association, among others;

- The International Organization of Pension Supervisors (**IOPS**) located in Paris as well. This organization comprises pension funds supervisory agencies from more than seventy countries. In 2007, the SPC formalized its intention to become a member in the exercise year of 2008. The country is now an IOPS member country;
- The International Social Security Association (**ISSA**) was founded in 1937 and gathers about 350 governmental agencies. The SPC will assume the Investments Technical Commission vice-presidency for a period of three years starting in 2008;
- The Ibero-American Social Security Association (**OISS**), founded about fifty years ago. The Social Security Ministry has been a member for decades and the SPC assumed the presidency of the Technical Committee of Pension Funds and Plans since 2005.

It is worth noting that the SPC's international insertion in the organizations above has occurred from 2003 on when, through the initiative of the Social Security Ministry in the mentioned year, the Brazilian ambassador in France began the negotiations for Brazil to become a member of the Working Party on Private Pensions (OECD).

The SPC's international cooperation is a natural step given that the Brazilian pension market is, in absolute terms, one of the top ten in the world with more than R\$ 400 billion of assets under management in the closed segment alone in 2007 and more than R\$ 100 billion in assets managed by open entities, not to mention the capitalized special regime for public servants.

As positive results of such experience, one may highlight the exchange of experiences with other countries' regulatory and supervisory bodies, the access to comparative studies on other complementary pension systems and the possibility for the SPC to become one of the best supervisory agencies in the world through the adoption of more elevated benchmarks. Upon the analysis of the Agency's performance and numbers since 2003, such forecast proves to be challenging, yet realistic.

X – Administrative Support and Files

The 2001 Complementary Laws gave way to deep changes in the focus of the Closed Pension System. Whereas the previous legislation emphasized the pension fund, the new legislation gave emphasis to the benefit plan and expressively consecrated the patrimonial independence between plans managed by the same pension entity.

The new legal orientation called for the reformulation of the SPC's Protocol and File Department and the reorganization of hundreds of documents, which were then re-organized and separated by benefit plan instead of pension entity so as to prevent information concerning different pension plans from being improperly kept together.

Such measure granted more celerity to the prior authorization procedures for plan management transferences (those in which the administration of one benefit plan is taken from one fund to another). So, from then on, as soon as transference is completed, the corresponding SPC files are then reorganized. Such procedure has implied in significant gains in terms of efficiency and transparency.

As far as administrative support is concerned, the expressive increase in productivity in all SPC's fields of action caused corresponding results in the expedition and reception of documents. Such effect did not require the number of people allocated in the Technical-Administrative Coordination to be increased. It means that the productivity gains were achieved in all of SPC's departments.

In the last few years, the SPC, through its administrative area, has formally published thousands of Administrative Acts, as shown in Table 6 below (this table does not include the Administrative Acts published in Federal Official Gazette).

Table 6: Number of remitted official letters, circular official letters, memorandums, circular memorandums and faxes (received and sent) per year, from 2003 until 2007.

| Activities | Total Number | | | | |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Official Letters | 2.174 | 2.596 | 2.749 | 4.218 | 4.817 |
| Circular official letters | 22 | 12 | 4 | 4 | 0 |
| Memorandums | 1.826 | 2.103 | 1.166 | 2.158 | 1.757 |
| Circular Memorandums | 12 | 8 | 11 | 17 | 26 |
| Faxes sent | 325 | 390 | 463 | 421 | 391 |
| Faxes received | 180 | 518 | 220 | 290 | 162 |
| TOTAL | 4.539 | 5.627 | 4.613 | 7.108 | 7.153 |

Source: CTA / SPC

XI – Conclusion

All the adopted measures presented in this report enabled the establishment of an extremely favorable environment for the development of the pension fund system.

Such a favorable environment in addition to the significant improvement of the country's macroeconomic conditions, gave way to an outstanding increase in the security of benefit plans in terms of liquidity and solvency due to the adoption of more conservative and consistent actuarial assumptions and the improvement and diversification of investment portfolios. All these achievements were possible without any damage to the high levels of profitability over the 2003-2007 period.

Besides the great improvement for the already existing pension fund operational conditions that resulted from the favorable business environment and the adopted fomentation measures, since 2003 more than 150 benefit plans were established

(138 new plans and 18 plans resulting from fusions of already existing plans), which enabled tens of new groups to have access to pension coverage. Also, starting in 2003, 45 new closed entities of complementary pensions were created.

Pension funds and plans established with basis on associative ties are a plus. Such plans and funds were established by class entities, unions, associations and cooperatives for their associates or members. This is called Associative Pension Modality or *previdência associativa*, a new tendency effective from 2003, which gives the opportunity for new groups to have access to complementary pensions. Undoubtedly, this new pension modality has promoted an effective democratization of access to pension plans managed by pension funds, thus generating positive results in the social and economic areas that tend to double themselves in the next following years.

Nevertheless, despite the favorable business environment, the number of new pension plans, pension funds and sponsoring companies remained relatively stable in the 2003-2007 period (as shown in Table 7). The apparent contradiction is explained by the number of corporate mergers and incorporations occurred in the last years, that is, even though such movement reduced the number of sponsoring companies (and consequently of funds), new sponsors and instituidores, along with their respective groups, entered into the complementary pension system. Overall, the number of sponsors and pension funds presented only a small growth, whereas the number of new plans and entities would present a much greater increase if it weren't for the societarial reorganizations.

The total pension funds assets had significant nominal increase of more than 118% in the 2003-2007 period whereas the inflation rate for the same period was 33% and the minimal actuarial rate was 78%, as shown in Table 7 below.

Such growth, added to the growth of the open complementary pension system whose supervisory agency is the Superintendence of Private Insurance - SUSEP, an autarchy subordinated to the Finance Ministry, has allowed Brazil to experience a significant increase in the total stock of private internal savings that has contributed to finance the country's economic development and reduce the need for foreign capital that enters the country as direct foreign investments (always positive) and as external debt.

Table 7: Total number of Pension Funds, sponsors and assets managed by the system from 2001 to 2007.

| Year | Number of Pension Funds | Sponsors | Total Assets (in billions of reais, nominal value) |
|----------|-------------------------|----------|---|
| 2002 | 361 | 2093 | 187,9 |
| 2003 | 358 | 2087 | 239,7 |
| 2004 | 366 | 2114 | 281,8 |
| 2005 | 370 | 2037 | 321,6 |
| 2006 | 369 | 2258 | 377,2 |
| 2007 (*) | 370 | 2272 | 409,8 |

(*) preliminary data

Source: SPC/MPS.

In sum, one may say that the seeds sown since 2003, the results harvested after that by the Social Security Ministry through the National Secretariat for Pension Funds made it possible for the government to achieve all the proposed objectives by the end of 2007.

Therefore, the basis for the SPC's institutional development were settled and soon the agency will be recognized not only as an agency of excellence inside the Executive branch, but also as a high level supervisory structure suitable to the Brazilian complementary pension system.

In this regard, it is fundamental to highlight the personal efforts of public servants and private sector actors who contributed, throughout the thirty years of SPC's existence, for the achievement of such results.

These results could not have been achieved without the support of other public employees and managers from various areas of the Social Security Ministry, as well as those who work in a number of agencies and entities that compose the Brazilian Federal Government. Likewise, numerous private entities, especially those representing pension funds, beneficiaries and members, were of extreme importance for the consecution of the above cited results, which are, in fact, achievements of the Brazilian Society as a whole.

Finally, it is necessary to emphasize the satisfaction and pride of all SPC's workers who have been motivated by the certainty that they have worked to fulfill the agency's duties following the highest technical and ethical standards.

That is why the measures adopted in the past and in the present have and will continue to provide very good results for members, sponsors and *instituidores* of benefit plans managed by pension funds.

Above all, the development of the complementary pension regime, the strengthening of its social role and the growth of retirement savings will bring about lots of advantages for the Brazilian society.