20 October, 2015

Pablo Antolin
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Dear Sir,

Re: Consultation on the OECD Draft Recommendation of the Council on the Core Principles of Private Pension Supervision

We appreciate the opportunity to comment on the OECD *Draft Recommendation of the Council on the Core Principles of Private Pension Supervision*. I am pleased to transmit, on behalf of the International Actuarial Association (IAA), our comments and recommendations.

These comments have been prepared by the Pensions and Employee Benefits Committee of the IAA. If, upon reading these comments, you identify any points that you wish to discuss or obtain further insight regarding them, please do not hesitate to contact Esko Kivisaari, delegate of the IAA to the OECD, care of the IAA Secretariat. The IAA will be pleased to develop these ideas further with you.

Yours sincerely,

Fred Rowley
President

Attachment: IAA comments

Comments by the International Actuarial Association on the OECD Draft Recommendations of the Council on the Core Principles of Private Pension Regulation

International Actuarial Association and its Due Process

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our sixty-seven Full Member actuarial associations, listed in Appendix A to this statement, represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

We appreciate the opportunity to comment on the OECD *Draft Recommendations of the Council on the Core Principles of Private Pension Regulation* and provide our comments below which are supportive of the proposed Recommendations. These comments have been prepared by the Pensions and Employee Benefits Committee, the members of which are listed in Appendix B to these comments. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA's official web site.

General comments

We feel that the core principles are evolving into a promising direction with proposed changes to them. Generally we feel pension funds, especially those based on defined benefits, are going through difficult times in this era of low interest rates in many jurisdictions. Good and up-to-date regulation generally provides a good framework to manage pensions and create an environment where the interests of all stakeholders are duly observed.
The terms "pension fund" and "pension plan" are definitions that have a meaning already in "Private Pensions – OECD Classification and Glossary". The term "Pension entity", to our understanding, is not coming from that publication. Somehow this term feels misleading and seems to lead to confusions among commentators (it is easily mixed with the concept of a pension administrator). We feel that either

- the term should be explicitly stated at the beginning of these core principles to make certain readers understand what is meant by it, or (preferably)
- the term could be replaced with the term "Governing body" that is defined in "Private Pensions – OECD Classification and Glossary" as "Governing body (of the pension fund): this is the person(s) ultimately responsible for managing the pension fund with the overriding objective of providing a secure source of retirement income. In cases where operational and oversight responsibilities are split between different committees within an entity, the governing body is the executive board of the entity. Where the pension fund is not a legal entity, but managed directly by a financial institution, that institution's board of directors is also the governing body of the pension fund."

Additionally, with respect to the definition of a pension fund, we feel it not correct to state that "The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund". Often it is actually so that the plan members have legal or beneficial right with respect to the plan sponsor and the fund is "just" a financing vehicle used in fulfilling the legal obligations of the plan sponsor. We would leave this sentence out of the definition. Additionally it should be taken into account that pension plans often differ quite a lot from insured plans and therefore the roles of different stakeholders are different from those in an insurance contract.

The definitions, for example, of beneficiary, pension plan sponsor and fund members (from the OEFD Classification and Glossary) could be added to the definitions of these core principles.

The draft states in its introduction that 'a key issue is to facilitate the application of the Core Principles to different types of private pension plans, especially personal and defined contribution plans, which are growing in importance in pension provision in many OECD Members and non-Members'. However, most paragraphs of the draft still seem to discuss issues relating to defined benefit plans without saying so. This makes it sometimes confusing to understand whether these paragraphs are intended to be applicable to any type of private pension systems or just to defined benefit plans. More clarification would make it easier to understand the context. Also, more emphasis could actually be given to personal and DC plans.

The draft states in its introduction that 'the draft Recommendation contains general principles that are applicable to all funded private pension plans'. Its footnote states however that 'Principles may not apply to those pension plans and pension funds in European Union countries which fall outside the scope of the Directive 2003/41/EC of the European Parliament and the Council of the 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (for example pensions funded via book reserves).' One might wonder why the OECD introduces such a detailed recommendation on principles for certain plans but not for others.

The CPs refer in many areas to risk control/management. This is core area in the expertise of actuaries. The IAA has in 2011 published its note on enterprise risk management for pensions. We would be happy to pursue this issue further if desired. We feel additionally that the concept of ORSA (own risk and solvency assessment) could be applied to the area of pensions.

We feel the core principles are valuable in many ways. One particular weakness however is that the principles tend to present a too simplistic view of how pensions are operated. With this we mean that not all stakeholders and not all flexibilities vital to the sound operation of a pension fund are taken into account. This can be seen, inter alia, in at least the following:

- pension funds integrate a pool of assets that is intended to cover the pensions of many overlapping generations. All these generations are essential stakeholders of the fund and their interests should be managed in a balanced manner. The idea of intergenerational equity should at least be mentioned as one of the essential background factors.
- the role of plan members and beneficiaries is overly stressed which leads to lesser importance given to sponsors of the plan. It could however be said that the support from the sponsors is one of the key elements in the long term viability of a pension fund.

Therefore it is crucial that the fund is managed in such a manner that the sponsors will retain their loyalty with respect to the plan.

- pension funds have different flexibilities in different jurisdictions. It should be recognised that these funds often have more flexibilities than what is customary in insurance. These flexibilities usually mean more or less risk sharing between different stakeholders, i.e. between sponsors and members/beneficiaries. These flexibilities should be taken into account in an appropriate manner. Of particular interest is to look at the possibilities of pension funds to adapt to the current low interest rate environment.

In relation to CP 3, in second full paragraph of page 12, it is stated that *"The Governing body and senior mgt of a pension fund should be accountable to members, owners and eventual plan sponsors"*. Additionally, section 3.5 on accountability states *"in occupational pension plans, the governing body should also be accountable to the plan sponsor to an extent commensurate with its responsibility as benefit provider"*. Further on, in section 4.6 it is stated *"the investment objectives should take into account an acceptable degree of risk for plan members and beneficiaries, the pension plans, and, where applicable, for the plan sponsor…"*. We feel these quotations contradict some other areas of the core principles, where for example,

- in 1.3 and in 2.9 affordability for plan sponsors is not taken into account,
- CP 3 in page 11 does not recognise sponsors as stakeholders,
- in 3.2 sponsors are not recognised,
- in 4.1, 4.2 and 4.3 sponsors are not mentioned,
- CP 6 in page 25 does not mention sponsors.

Additionally, we do not understand what is meant by "owners" in the text we quoted above.

Comments to some specific paragraphs

In CP 1 we feel that in addition to "coverage, adequacy, security, efficiency and sustainability" also transparency should be mentioned among the objectives. The objectives now mentioned seem to refer to older "paternalistic" times whereas plan members nowadays require their own understanding of issues. Also we are wondering whether there is a need for a new concept/definition of "pension plan systems". What is the relation of this concept to other concepts used in these core principles?

With respect to 1.7 we would like to mention that the IAA is currently developing ISAPs, the international standards of actuarial practice. These standards are model standards and local actuarial associations may make them binding on their members. With respect to pension plans/funds the most relevant of these standards are ISAP 1 (General Actuarial Practice) and ISAP 3 (IAS 19 – Employee Benefits). If desired the IAA could consider developing a model standard for actuarial practice in connection to these core principles or certain specific parts of them. This could help in achieving uniform actuarial practices around the world.

We wonder whether 2.1 would allow what is typical of the German CTA which has no legal capacity but which still holds assets that are legally separate from those of the employer.

In 2.2 we feel the concept of "pension entity" is actually used when the text intends to refer to the pension administrator. Also in 2.13 it is unclear whether capital requirements of the pension administrator are addressed or whether there is the idea of having solvency requirements for the actual pension fund. In 2.14, using current definitions, it would maybe be appropriate to have "Governance of pension entities" as the title.

CP 2.5, states "Pension plans, pension funds and/or pension entities should have (jointly or separately) formal, written charters or documents describing their objectives. These documents should set out the plan's parameters (such as types of contributions and benefits), governance structure, the rights of members and other beneficiaries and any incumbent outsourcing or third party service provisions. They should also clearly identify all parties with authority and responsibilities for the management of the pension plans, pension funds and/or pension entities." We feel that one important element of pension plans is how risks are shared between plan sponsor and members/beneficiaries. This risk sharing should also be documented in this context. With respect to 2.6 and 2.7 we refer to what we said in general comments on risk management.

In 2.24 we think it should still be possible to delegate certain part of the expertise needed, as actually is suggested in the penultimate paragraph of 3.1 on page 12. A trivial comment to 2.24 is that its third bullet point seems to be incomplete.

2.25 seems to talk of the so called "proportionality principle". Proportionality principle is usually expressed with the words "nature, scale and complexity" so we propose to consider using these words instead of "type, scale and complexity".

In CP 3 we are again wondering whether definitions are used in a consistent manner. Either the title of this CP could be "Governance of Pension entities and funds" or the word "plan could be eliminated from the text to make the CP clearer.

3.11 on Internal Risk-based Controls addresses a very important topic but somehow gives the impression that this could lead to a tick-in-the-box exercise. We would suggest saying this issue more in a principles based manner. We also refer to what we said on ORSA above.

In CP 4 we have the feeling that it is somewhere between exact quantitative rules and the so-called prudent person principle. For example the percentages in 4.16 seem fairly arbitrary. We advocate the use of the prudent person principle and feel this CP should be amended accordingly. We feel that the concepts "self-investment" and "self-dealing" should have somewhat more exact definitions. Additionally the title of this CP could be clearer as "Investment of pension plan assets".

4.10 talks of investment choices in plans where members make investment choices. As DC plans are more and more usual, this area would deserve more attention. Especially the so-called default option is important. We feel that the default option as well as possibly offered life-cycle options would require more extensive guidance so that safe and actuarially sound options could be offered. Members should also be offered enough guidance so that they can make good decisions.

4.22 – 4.27 talk of valuation referring to valuation of assets. It seems peculiar to us that the valuation of liabilities has not deserved any attention in these core principles. In current environment of quantitative easing there should be the possibility of establishing a stable ultimate forward rate for longer maturities.

5.10 refers to possible reductions in benefits or obligations. 5.3 seems to be in contradiction with this.

Core Principle 6 is about supervision and actually quotes respective IOPS (International Organisation of Pension Supervisors) rules. The IAA has sent comments on these in 2013 and we refer to these earlier comments from us.

Principle 7 addresses funding. We have written in 2013 comments on this area and we are happy to note that they have been to substantial extent utilised in the current version of the core principles. We have the following additional comments in this area:

- we feel it is too strict to say that “private unfunded pay-as-you-go plans at the individual company level should generally be prohibited.” In different jurisdictions there are different ways of safeguarding the rights of members/beneficiaries which need to be taken into account when funding is considered. In any case, the amount of funding is more a political decision.
- on page 36 in its second paragraph we feel an employer’s responsibilities are expressed somewhat too strongly. Many pension plans have employee contributions and also in some jurisdictions benefits are flexible in case a plan’s solvency gets lower.
- in 7.1 saying plans should be adequately funded is of course relevant, but on the other hand the logic here is fairly circular as it refers to relevant local regulation
- in 7.3 we think the term “plan” should be used instead of the term “fund”
- in 7.10 we would use the term “methods” instead of the last instance of the term “standards”
- in 7.12 we would replace “the methodologies used in the valuation of assets and” by “consistent with market conditions and expectations, and are compatible with”.
- in 7.14 we would use “plan” instead of “fund”
- we strongly suggest deleting paragraph 7.16. We believe that outputs could be smoothed but not inputs. The actuarial calculations should tell things as they are. As long as this is transparent then local regulators may want to introduce some smoothing into the funding requirements (i.e. contributions can be smoothed). But funding methodologies shouldn’t present pension plans as being better funded than they are because of smoothing mechanisms hidden in the methodology.
- we would similarly delete paragraph 7.18

In 8.12 the text is basically correct but it should be noted that, at least in some jurisdictions, transfer values can be reduced in case there is a deficit in the fund.

For clarity in CP 9 it should be stated that CP’s 1 – 6 apply also in this area. Generally, as already noted at the beginning of these comments, we would expect that CP’s 9 and 10 could be expanded to be more comprehensive.

Appendix A

Full Member Associations of the IAA (67 members)

Caribbean Actuarial Association
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Actuaries Institute Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Institut des Actuaires en Belgique (Belgique)
Aktuarsko Drustvo U Bosni I Hercegovini (Bosnia and Herzegovina)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
China Association of Actuaries (China)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Asociación Colombiana de Actuarios (Colombia)
Institut des Actuaires de Côte d'Ivoire (Côte D`Ivoire)
Hrvatsko Aktuarsko Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Ceská Spolecnost Aktuárù (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuaires (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Islenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktuaru Draugija (Lithuania)
Persatuan Aktuari Malaysia (Malaysia)

Full Member Associations of the IAA (67 members)
…continued

Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuaires (Morocco)
Het Koninklijk Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Asociatia Romana de Actuariat (Romania)
Russian Guild of Actuaries (Russia)
Udruzenje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Institute of Actuaries of Korea (South Korea)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Society of Actuaries of Thailand (Thailand)
Association of Consulting Actuaries (United Kingdom)
Institute and Faculty of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)

Appendix B

Members of the Pensions and Employee Benefits Committee
(20 October 2015)

Chairperson
Thomas S. Terry

Co-Vice-Chairpersons
Yasuyuki Fujii
Philip Stewart Shier

Members

Félix Arias Bergadà	Life Section
Urs Barmettler	Association Suisse des Actuaires
Nils Berner	Svenska Aktuarieföreningen
Charles Anthony Cowling	Institute and Faculty of Actuaries
Barbara D'Ambrogi-Ola	Suomen Aktuaariyhdistys
Philippe Demol	Institut des Actuaires en Belgique
Maria Economou	Hellenic Actuarial Society
David Fairs	Association of Consulting Actuaries
Erik Falk	Den Norske Aktuarforening
Alfred E. Gohdes	Deutsche Aktuarvereinigung e. V. (DAV)
A.D. Gupta	Institute of Actuaries of India
Kenneth F. Hohman	Conference of Consulting Actuaries
Martin Janecek	Ceská Spolecnost Aktuárù
Pari Kandhai	Het Koninklijk Actuarieel Genootschap
Henry Peter John Karsten	Instituto de Actuarios Españoles
Sylvestre Konin	Institut des Actuaires de Côte d'Ivoire
Martin Kosztolanyi	Slovenska Spolocnost Aktuarov
Safia Lekehal	Institut des Actuaires
Tze Kei Jack Mak	Actuarial Society of Hong Kong
Jason J Malone	Canadian Institute of Actuaries
Nikola Masic	Hrvatsko Aktuarsko Drustvo
José Roberto Montello	Instituto Brasileiro de Atuária (IBA)
José Muriel Del Sordo	Colegio Nacional de Actuarios A. C.
John Michael Newman	Actuaries Institute Australia
Joseph A Nichols	American Society of Pension Professionals & Actuaries
Ieva Ose	Latvijas Aktuaru Asociacija
Kon-Kyu Pak	Institute of Actuaries of Korea
Gediminas Rackauskas	Lietuvos Aktuaru Draugija
Heidi Rackley	American Academy of Actuaries
Ana Margarida Ramos Estrela	Instituto dos Actuários Portugueses
Donald J Segal	Society of Actuaries
Kenji Sekine	Institute of Actuaries of Japan

Members of the Pensions and Employee Benefits Committee
(20 October 2015)
…continued

Anna Selivanova	Russian Guild of Actuaries
David Serr	Israel Association of Actuaries
Diego Valero Carreras	Col.legi d'Actuaris de Catalunya
Jian Xin Zhao	China Association of Actuaries

Ex officio
Timothy Furlan
Esko Kivisaari