



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

October 1, 2008

Ms. Sally Day
Financial Affairs Division
Organisation for Economic Co-operation and Development
Paris, France

Dear Madam

Re: IAA comments on OECD Draft Guidelines for Pension Fund Governance

In response to the request for comments on the August 2008 OECD Draft Guidelines for Pension Fund Governance, 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 would wish to pursue, please do not hesitate to contact the chairperson of the committee, Esko Kivisaari, or any other members of the committee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely

Yves Guérard
Secretary General

[Attachment](#): IAA comments

**A Commentary on the
DRAFT GUIDELINES FOR PENSION FUND GOVERNANCE
RELEASED BY THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT: AUGUST 2008**

International Actuarial Association

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The Full Member associations of the IAA are listed in an Appendix to this statement. 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 on the areas of expertise of actuaries.

Due Process

These comments have been prepared by the Pensions and Employee Benefits Committee, the members of which are listed in an Appendix to this statement. 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.

IAA Comments

The IAA welcomes the proposed guidelines for pension fund governance and thanks the OECD for the opportunity to comment on this paper. We would be pleased to meet with the OECD to expand on our written comments as we feel actuaries have profound experience with pension funds in different jurisdictions. This results from the fact that actuaries are extensively involved in the operations of pension funds.

Generally we feel that the OECD has done good work in an important area. These guidelines are a significant step forward. They provide extensive guidance in various areas. In what follows, we have restricted our comments to issues we feel are close to actuaries.

We think it is appropriate that the OECD stresses the idea of risk-based supervision in fund governance. It is especially in this area that actuaries are willing to engage in discussions to further clarify this aspect of fund governance. That being said, we also believe that there are other objectives to pension funds and their governance that need to be taken into account.

With regard to item 2 on the governing body, we have some difficulties in understanding what is meant by the statement, “The governing body should not be able to completely absolve itself of its responsibilities by delegating certain functions to external service providers.” Our understanding is that delegating some tasks to some external service providers should never change the ultimate responsibility of the governing body.

As regards item 5 concerning the actuary, we would like to say that actuaries are nowadays more and more needed also in other pension funds than those operating on the defined benefit concept. It is of course evident that in Defined Benefit (DB) plans the role of the actuary in governance is essential, i.e., to monitor the solvency of the fund and to recommend adequate contributions from the sponsor in order for the fund to be able to honour its commitments to the beneficiaries.

However, the objective of all pension funds is to provide for beneficiaries a certain assurance as to whether a given level of pension will be paid. Ensuring that the contributions in Defined Contribution (DC) schemes will be sufficient to provide for a projected level of pension benefits is also essentially an actuarial question. It is of course clear that in a pure DC plan the risk is borne by the beneficiaries which makes the role of the actuary different but still essential. We have noted that in the annotations of the paper (Item 5, actuary) the role of the actuary is also noted in DC plans.

On the question of accountability (item 7) there seems to be some confusion as to who is ultimately responsible and to whom. The text here appears to be addressing the situation where the fund bears ultimate responsibility. However, it is often the case in employer sponsored plans that the employer bears the responsibility. The employees receive a pension promise from the employer who is ultimately responsible to fulfil the promise. In such a case the fund can be thought of as a financing vehicle, as collateral for the promise. One can also say that this is reflected in international accounting where the full responsibility for the benefits is a liability of the employer, and the assets of the fund are treated as an asset covering fully or partially the liabilities. We feel that this area could be expressed more clearly to cover situations where the company is in fact the governing body managing the fund, or the duties of that body are limited to the assets held in the fund. Pension funds should not, at least not always, be treated as separate organisms; and not all governing bodies are required to make fund-related decisions in “the best interests of the members,” rather they are required to protect the interests of the fund itself.

It is not clear to us whether book reserve pension arrangements are subject to the proposed guidelines. These are sometimes referred as non-autonomous pension funds as the funds are not legally separated from the employer, while the guidelines seem to include pension funds independent of employers. Are they meant to be covered under “Corporate Governance” if not covered under this document?

On item 9 we feel it is appropriate to stress the idea of risk-based supervision. However, we must emphasize that we first need to understand who is responsible for the risks (referring to the previous point). Only then can a truly risk-based system of governance be implemented. We did not see explicit reference in the document on the potential exposure for “non-compliance” such as sanctions, penalties (which would vary by jurisdiction), etc., and who would bear the risks in the case of delegation of functions.

An issue we feel is missing is the role of possible guarantee funds. These certainly have a role in supervision. We are of the view that the existence of a guarantee fund should not make supervision less important but on the contrary more important. Indeed, there could be a higher risk of moral hazard in situations where there is a guarantee fund.

Under main responsibilities of the Governing Body (Annotations, section 2), we would suggest that compliance on paying proper scheme expenses from the funds be added explicitly as this is increasingly challenged by the authorities (i.e., not all expenses related to a scheme can be automatically paid out of scheme’s assets).

In the annotations (identification of responsibilities, third paragraph) we feel that it is not entirely reasonable to address asset-liability management only in DB and hybrid plans. As stated above, this has some relevance in DC plans as well, not from a solvency point of view but from the point of view of providing a certain level of benefits for beneficiaries.

Finally, we refer to an important detail in Sections 4 and 5, where the actuary (and possibly other parties such as the auditor) may be required to inform the competent authority in any event, not just if, the governing body does not take appropriate remedial action. This latter approach would require the actuary to exercise judgment about what is “appropriate remedial action” and could expose the actuary to legal problems in exercising that judgment. This is the case in the United Kingdom and Australia, for example.

Finally, we would appreciate if the OECD could clarify what is meant by certain key phrases in Section 5 in particular:

- which “statutory requirements” are covered (e.g., are they restricted to funding requirements or could they extend to other requirements such as standards for governance, administration, etc)?
- what constitutes “appropriate” remedial action (and does this include a reasonableness check on whether the matter in question is material to the health or good governance of the fund)? and
- what timeframe is envisioned in the use of the phrase “without delay”?

Appendix A

Members of the IAA Pensions & Employee Benefits Committee

Esko Kivisaari	Chairperson
Yoshihiro Oyama	Vice-Chairperson
Ronald Stewart Bowie	Faculty of Actuaries
Luca Coppini	Istituto Italiano degli Attuari
Philippe Demol	Association Royale des Actuaire Belges
Yasuyuki Fujii	Japanese Society of Certified Pension Actuaries
Alfred E. Gohdes	Deutsche Aktuarvereinigung e.V. (DAV)
Gary Ryan Hibbard	Institute of Actuaries
Bozenna Hinton	Institute of Actuaries of Australia
Curtis E. Huntington	American Society of Pension Professionals & Actuaries
Martin Janecek	Ceská Spolecnost Aktuárù
James Richard Kehoe	Society of Actuaries in Ireland
Sylvestre Konin	Institut des Actuaire de Côte d'Ivoire
Martin Kosztolanyi	Slovenska Spolocnost Aktuarov
Åsa Larson	Svenska Aktuarieföreningen
José Roberto Montello	Instituto Brasileiro de Atuária (IBA)
José Muriel Del Sordo	Colegio Nacional de Actuarios A.C.
Ieva Ose	Latvijas Aktuaru Asociacija
John P Parks	American Academy of Actuaries
Neil A Parmenter	Society of Actuaries
Hannu Parviainen	Suomen Aktuaariyhdistys
Manuel Peraita Huerta	Instituto de Actuarios Españoles
Eduard Ponds	Het Actuarieel Genootschap
Gediminas Rackauskas	Lietuvos aktuariju draugija
Ksenija Sanjkovic	Hrvatsko Aktuarsko Drustvo
K.P. Sarma	Institute of Actuaries of India
David Serr	Israel Association of Actuaries
Colin Leslie Southey	Actuarial Society of South Africa
Anne Grete Steinkjer	Den Norske Aktuarforening
Joan Angel Vergés Guerra	Col.legi d'Actuaris de Catalunya
Jill M Wagman	Canadian Institute of Actuaries
Ulrich Wehrli	Association Suisse des Actuaire

Full Member Associations of the IAA

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires
(Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaires Belges (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Institut des Actuaires de Côte d'Ivoire (Côte D'Ivoire)
Hrvatsko Aktuarsko Društvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (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 Íslenskra 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)
Latvijas Aktuaru Asociācija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktuariju Draugija (Lithuania)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuaires (Morocco)
Het 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)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Udruženje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
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)
Faculty of Actuaries (United Kingdom)
Institute 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)