14 February 2025

Attn: Mr. Dariusz Stańko

Head of IOPS Secretariat

By e-mail: iopsadmin@iopsweb.org ; Dariusz.Stanko@oecd.org

Dear Mr. Dariusz Stańko,

Public consultation on the draft Revised IOPS Principles of Private Pension Supervision

In response to the IOPS Consultation on the draft Revised IOPS Principles of Private Pension Supervision in December 2024, I am pleased to submit on behalf of the International Actuarial Association (IAA) our comments in the appendix to this letter.

The IAA would welcome the opportunity to discuss these ideas further with you.

If you wish to discuss any of our feedback, please do not hesitate to contact Jason Malone, IAA's contact for matters relating to IOPS, via the IAA Secretariat.

Yours sincerely,

Bozenna Hinton

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President

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APPENDIX

The International Actuarial Association

The International Actuarial Association (IAA) represents the global actuarial profession. Our seventy-three Full Member actuarial associations represent more than 95% of all actuaries practising in over 115 countries around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

We are pleased to have the opportunity to provide input to the IOPS on this important consultation. The members of the IAA's Pensions, Benefits and Social Security Forum reviewed the draft Revised IOPS Principles of Private Pension Supervision and are pleased to offer the comments below.

Our comments are as follows:

1. General Remarks

The draft proposal for the revised IOPS principles of Private Pension Supervision is well written and easy to understand. These qualities are both important for a document with a large diffusion as the IOPS principles. The members of IAA's Pensions, Benefits and Social Security Forum were very supportive of most of the document. They think the document is useful for the regulators and for those involved in reviewing pension supervision.

2. Comments on the content

- Preamble: The preamble states that a DB-plan has to be funded "sufficiently to ensure that the promised benefit will be provided". "Ensure" may suggest a greater level of certainty than is actually the case in some jurisdictions. We believe that the level of certainty the supervisor is aiming for will depend on legislation, regulation and practice in the relevant country and the wording should allow for that.

- Scope and Coverage: The discussion in the preamble suggests that the principles are intended to cover DB and DC pension plans. However, it would be clearer if the scope and coverage section in the preamble specifically stated that. The scope and coverage section draws on the OECD definitions of pension fund and pension plan. The fund definition requires a separate legal entity, which is present in many jurisdictions. However, it should be checked that the definition of pension plan (which relies on contract rather than separate legal entity) is broad enough to cover all the intended jurisdictions around the world which provide pensions under different legal structures.

- <u>Paragraph 15 of the preamble refers to IOPS Supervisory Guidelines on the Integration of ESG Factors in the Investment and Risk Management of Pension Funds.</u> In the guideline 2 of the above guidelines is suggested that recognizing ESG factors should be in line with "fiduciary duties" and that legal uncertainty should be removed. This is a controversial and evolving field in many countries. It may be appropriate to more explicitly recognize the competing views in paragraph 15, while noting that the IOPS guidelines exist for those that wish to use them.

- <u>Principle 4. Monitoring and Adaptability:</u> Paragraph includes a list of important changes that supervisors may need to adapt to. It may be worth adding a bullet point on the shift from DB to DC and hybrid or risk sharing pension plans, given the different supervisory requirements for those plans.

- <u>Principle 5. Adequate Resources</u>: We would suggest that when implementing regulations or changing the supervisory approach, the cost of the changed regulation should be a consideration, as the costs will ultimately be borne by the members the regulator is working to protect. Best practice would be to subject new regulation or supervisory approaches to a system cost benefit analysis. This overlaps with a few principles, including Principle 2 on implementing new regulation, Principle 4 on monitoring and adapting regulation and Principle 7 on risk-based supervision, which is of course an approach to cost effective regulation.

  Related to cost, Principle 5 notes that the supervisory authority could be funded by the pension funds that it is supervising. There is a user pays consideration to that approach, the cost isn't being borne by others that don't benefit from the supervision, that could be worth noting.

- <u>Principle 7. Risk based supervision</u>: besides efficient resources' use, there may be other motivations for adopting a risk-based approach, i.e. promoting appropriate pension coverage and protection for members, effective use of regulatory tools, reducing administrative burden, etc.

- Different types of information regulatory filings requirements should consider a balance between reducing the administrative burden and collecting sufficient entity specific data for effective risk-based supervision.

- <u>Principle 9. Consultation and Cooperation:</u> We would suggest that a key time for consultation would be ahead of the introduction of new regulation, to the extent that the supervisor is making the regulation, or new supervisory approaches. Also, regular consultation with actuarial standards setters would be valuable.

- <u>Principle 11. Transparency and communication:</u> We encourage consideration of whether Paragraph 11.8 is best placed where it is. The rest of Principle 11 relates to transparency and communication by the supervisory authority and the 11.8 switches to communication by the pension fund. It might be better for the points made in 11.8 (which we support) to be drawn out as part of Principle 1: Objectives and responsibilities. The last sentence of Paragraph 1.5 has a degree of overlap with 11.8. We would suggest that this sentence in Principle 1 be given its own paragraph and expanded to cover some of the supervisory objectives for DC pension funds. We would note the special challenge with DC pension funds or providing education, nudges and advice that gets good outcomes for members while ensuring those services aren't corrupted for other purposes.

  In Paragraph 11.6 we would suggest mentioning the publishing of the statistics on actuarial matters, particularly disclosure of assumptions that have a material impact on the financial position of pension plans and supporting information like demographic outcomes that may assist with benchmarking and the development of better assumptions.

- <u>Principle 12. Governance</u>: In paragraph 12.3 we would suggest recommending regulators maintain a whistleblower policy.

  Paragraph 12.6 is about separation of duties between those proposing the decisions and those approving the decisions. We note that the previous of the principles included the words "within the authority". We support removing that text, but suggest that it would be good to clarify that the separation in this context may be within an authority or across organizations. In some countries like Japan, one supervisory authority has the responsibilities of both proposing and approving decisions. So even if those two responsibilities are functionally separated, when needed, the supervisory authority is responsible for both as its jurisdiction.

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