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Circular No. 7 of 2008

ZIMBABWE ASSOCIATION OF PENSION FUNDS

LIFE OFFICES ASSOCIATION

FUND ADMINISTRATORS

**ENHANCED TRUSTEE RESPONSIBILITIES: PROPOSAL TO BE
INCORPORATED IN THE PENSION AND PROVIDENT FUNDS ACT
[CHAPTER 24:09]**

Please find enclosed a summary of proposals which we would like incorporated in the above Act as part of the ongoing review of legislation.

We would be grateful for your comments, in any case no later than 30th June 2008.

M. S. Mpofu

COMMISSIONER OF INSURANCE, PENSION AND PROVIDENT FUNDS

ISSUES FOR CONSIDERATION FOR INCORPORATION IN THE PENSION AND PROVIDENT FUNDS ACT

1. Introduction

- 1.1. In October 2007, the Office of the then Registrar of Pension and Provident Funds approached the Institute of Chartered Accountants Zimbabwe (ICAZ) to research on the “financial reporting standards” in the insurance and pension fund industry. The Registrar’s request was followed by the establishment of the Pensions Sub-Committee consisting of two members of the ICAZ and a practicing Actuary.
- 1.2. In October 2004 the Pensions sub-Committee produced a report recommending among other things that the International Financial Reporting Standards should be adopted as the reporting framework for pension funds, including the fair value standards so as to make the reporting information more meaningful to stakeholders.

2. Shortcomings of the current reporting practices in the pensions industry

The Pensions Sub-Committee in its report highlights the fact that a good number of pension funds do not comply with the following standards which are fair value.

- IAS 26 “Accounting and Reporting by Defined Benefit plans”
- IAS 29 “Financing Reporting in hyperinflationary economies”
- IAS 32 “Financial Instruments: Presentation and Disclosure”
- IAS 39 “Financial Instruments: Recognition and Measurement”
- IAS 40 “Investment Property”

3. Recommendations on the Contents of the Annual Report of a Pension Fund

3.1. Trustee’s Report

The Report should:-

- disclose the names of trustees who served during the year.

- indicate the number of trustee meetings held during the period and voting arrangements, including the mention of any subcommittee.
- disclose the names of professional advisers, asset management companies, banks and other persons or organizations acting for or retained by the trustees during the year.
- explain important events or occurrences that the trustees consider relevant for a proper understanding of the schemes financial development.
- include an explanation of the future funding of the scheme if it is in deficit.
- highlight a statement of trustee responsibilities.

3.2. **Investment Report**

To the extent that Trustees have the responsibility to appoint asset management companies they will be required to report on:-

- whether they have produced a statement of investment principles and whether this is available on request.
- performance objectives of the fund and why these were selected.
- a review of investment performance of the fund during the year. The review should incorporate the disposition, marketability, security and valuation of the scheme's assets.
- should there be any investments made during the year that are not in conformity with the statement of the fund's investment principles, the report should disclose the departures, why it was necessary and how this situation will be corrected.
- what policy the trustees follow regarding custody of fund assets.

3.3. **Compliance Statement**

Trustees should state categorically whether or not the fund they preside over has complied with the laws and regulations the fund is subjected to. The statement could include:

- compliance with prescribed assets.
- if there is non compliance why it is so and, what measures are being taken to rectify the situation.
- a review of the accounting and internal controls of each asset management company holding any pension fund assets should be done by a registered Accountant and Auditor.
- the review should be carried out in accordance with International Standards on agreed upon procedures of engagement between the parties. The registered accountant and auditor should certify that (based on the agreed upon procedures) the internal control environment is sound and that prescribed laws and regulations are being complied with.
- the review report produced by the Accountant and Auditor should be made available to all pension funds that may wish to invest with an asset manager or regulators who want to check compliance with rules and regulations.

3.4. **Actuarial Report**

Some aspects of this report should form part of the disclosure regulations. Accordingly the report must disclose the following:-

- date of the most recent actuarial valuation.
- valuation method.
- the principal assumptions used in valuing the assets and liabilities. These should include
 - the long term average rate of return
 - the long term salary growth rate
 - pension increase allowance
 - dividend increase (if applicable)

- method of asset valuation
- any other assumptions that are specifically identified by the actuary as being critical.

- statement of past service position with numbers on an ongoing basis (for a final salary fund this would mean allowing for projected salary increases and pension increases).
- possibly a statement (this could be with or without numbers) that the scheme would be in a sound financial position on winding up.

4. **Corporate Governance in the running of a Pension fund**

4.1. **Trustees**

Trustees need to ensure that they are adequately informed and prepared to discharge their responsibilities and duties. Specifically trustees should:-

- be fully conversant with their responsibilities.
- receive proper and adequate training.
- possess the necessary skills and relevant competence.
- serve all classes of beneficiaries impartially.
- be guided by the cardinal attributes of good corporate governance which include discipline, responsibility, accountability, transparency, fairness and social responsibility.
- be fully aware of the legal requirements on compulsory and voluntary reporting to the Commissioner of Insurance, Pension and Provident Funds and must ensure that fund administrators comply with this as well.
- funds should have formal and comprehensive risk identification assessment and monitoring procedures.

- trustees should assess their governance procedures against international or local best practice and periodically evaluate the effectiveness of their governance procedures. The King II report could be useful.

4.2. **Fund Administration**

The fund's administrator should be able to provide accurate and complete financial information timeously for effective fund governance. Trustees should therefore:-

- monitor the administrator's performance periodically against a predetermined and agreed set of criteria.
- adequate indemnity and professional negligence cover should be maintained by the fund's administrator.

4.3. **Audit**

A pension scheme audit entails an examination of the scheme's financial statements and accounting records to enable the auditors to form an independent opinion on the financial statements. The auditors should also check whether the contributions payable to the fund are in accordance with the schedule of contributions.

In this regard:

- all big funds should have a formal audit committee with the requisite terms of reference and reporting responsibilities.
- the committee should meet regularly say two to three times yearly. At the very minimum meetings should be held at the planning stage of the audit to discuss risks and audit scope and at the conclusion stage for the presentation of the auditor's findings and approval of the annual financial statements.
- the auditors should prepare management reports detailing their findings. As much as possible the auditors should present those findings in person to the audit committee.

4.4. **Legal Compliance**

Over and above other issues such as the submission of returns timeously, trustees have to report whether contributions have been remitted timeously and if not what action the trustees have taken to correct the situation.

4.5. **Investments**

As part of their fiduciary responsibilities trustees should show that they have obtained appropriate advice from experts in areas where they may be deficient. Funds therefore should seriously consider setting up investments committees to closely look into investment issues as follows:-

- the board of trustees should draw up a document setting out the investment policy for the fund, including delegation to investment managers and custodians where required. The document should also include procedures necessary to monitor investment performances and the appropriateness of the investments.
- trustees should have the capacity to fully understand the investment strategies adopted and should be able to attest to the fact that the investments have been managed in terms of their stipulated investment strategies.
- past performance and relationships with investment managers should be amongst the most significant factors in the selection of an investment manager.
- specific benchmarks of standards should be set for each portfolio and should take into account the fund's unique investment objectives and risk profile. This will help in the objective evaluation of performance of an investment portfolio.
- in order to evaluate the portfolio's return, the specific benchmark and not the overall performance should be used. Performance should be evaluated at least quarterly.

5. **Comments from Stakeholders**

We believe that the work done by the Sub-Committee ICAZ is commendable and would like some comments on the above before we map the way forward.

Insurance and Pensions Commission

21 April 2008