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
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  
Yoshihiro Oyama  
Ronald Stewart Bowie  
Luca Coppini  
Philippe Demol  
Yasuyuki Fujii  
Alfred E. Gohdes  
Gary Ryan Hibbard  
Bozenna Hinton  
Curtis E. Huntington  
Martin Janecek  
James Richard Kehoe  
Sylvestre Konin  
Martin Kosztolanyi  
Ása Larson  
José Roberto Montello  
José Muriel Del Sordo  
Ieva Ose  
John P Parks  
Neil A Parmenter  
Hannu Parviainen  
Manuel Peraita Huerta  
Eduard Ponds  
Gediminas Rackauskas  
Ksenija Sanjkovic  
K.P. Sarma  
David Serr  
Colin Leslie Southey  
Anne Grete Steinkjer  
Joan Angel Vergés Guerra  
Jill M Wagman  
Ulrich Wehrli

Chairperson  
Vice-Chairperson  
Faculty of Actuaries  
Istituto Italiano degli Attuari  
Association Royale des Actuaires Belges  
Japanese Society of Certified Pension Actuaries  
Deutsche Aktuarvereinigung e.V. (DAV)  
Institute of Actuaries  
Institute of Actuaries of Australia  
American Society of Pension Professionals & Actuaries  
Ceská Společnost Aktuarů  
Society of Actuaries in Ireland  
Institut des Actuaires de Côte d'Ivoire  
Slovenska Spolocnost Aktuarov  
Svenska Aktuarieföreningen  
Instituto Brasileiro de Atuária (IBA)  
Colegio Nacional de Actuarios A.C.  
Latvijas Aktuariju draugija  
American Academy of Actuaries  
Society of Actuaries  
Suomen Aktuaariyhdistys  
Instituto de Actuarios Españoles  
Het Actuarieel Genootschap  
Lietuvos aktuariju draugija  
Hrvatsko Aktuarsko Drustvo  
Institute of Actuaries of India  
Israel Association of Actuaries  
Actuarial Society of South Africa  
Den Norske Aktuarforening  
Col.legi d'Actuaris de Catalunya  
Canadian Institute of Actuaries  
Association Suisse des Actuaires
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 Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Ceská Spolecnost Aktařů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariryhmät (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)
Latvijas Aktuāru Asociācija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktyvijų 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 Aktuarzy (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)