LIBERIA/USAID GOVERNANCE AND ECONOMIC MANAGEMENT SUPPORT PROJECT (USAID-GEMS)

CIVIL SERVICE AGENCY GOVERNANCE MANUAL: PUBLIC SERVICE PENSION SYSTEM

OCTOBER 2013

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ABBREVIATIONS

GOL	Government of Liberia
CM	Change Management
IC	Investment Committee
CSA	Civil Service Academy
KPI	Key Performance Indicator
PSP	Public Service Pension
NPS	National Pension Scheme
NASSCORP	National Social Security Corporation
RM	Resource Management
SLA	Service Level Agreement
LRC	Law Reform Commission
GAC	General Auditing Commission
KPI	Key Performance Indicators

I. INTRODUCTION

BEST PRACTICE FRAMEWORK: PUBLIC SERVICE PENSION SCHEME IN LIBERIA

The Government of Liberia (GOL) has decided to adopt a new contributory Public Service Pension (PSP) system for public service employees under the leadership of the Civil Service Agency (CSA) of the GOL. This new PSP system will operate simultaneously and above the contributory National Pension Scheme (NPS) managed by the National Social Security Corporation (NASSCORP). All the existing statutes relating to non-contributory pension schemes being governed by various Acts will cease to exist and be replaced by a new integrated PSP system for all government service employees except for the Military.

CSA and the Law Reform Commission (LRC) are in the process of drafting the necessary laws for enactment of the new PSP system. The proposed Act will include the following:

1. Summaries of statutes, regulations, the planning document, and board practices;

2. The systems' mission statement and its vision and guiding principles;

3. The organizational framework, lines of authority, roles and responsibilities, and summaries of contracts, including a Service Level Agreement (SLA) with NASSCORP; and

4. Board policies, key procedures and the Charter of the Board.

The laws governing the operations of the PSP system will ensure that the Board of Governors is responsible for ensuring the general administration, management and proper operation of the PSP system. In satisfying this responsibility, each board member acts in a fiduciary capacity. The obligation of those with fiduciary responsibilities is the highest under law. Each PSP board member is, at all times, subject to the statutory and common law duties of a fiduciary and the board policies governing board member conduct.

This Governance Manual is a guide to assist the PSP board in fulfilling its fiduciary responsibilities and to facilitate the organized, efficient, and cohesive functioning of the Pension Fund. This Governance Manual is to be provided to all PSP board members.

The Governance Manual, and all attached documents and policies, shall be reviewed and, if necessary, amended by the board at least every three years. However, the Governance Manual, and all attached documents and policies, shall be reviewed and amended by the board whenever circumstances warrant action.

The proposed PSP system will be a contributory defined benefit scheme with a 3% contribution by the employees to be deducted from their payroll based on total compensation, including base pay, allowances, incentive payments, and any other payments. The GOL will provide a matching 3% contribution for each employee. PSP will be a single integrated pension scheme and override all the previous noncontributory schemes governed by various laws enacted from time to time. The reasons for integration are as follows:

1. Equity: Reduce distortions and inequity between government service employees in the same country (except for military personnel).

2. Redundancy: Eliminate the duplication of administrative functions, such as recordkeeping, payment of pensions and other activities of mandatory pension funds. This duplication represents an unnecessary cost that ultimately reduces the financially sustainable benefit level.

3. GOL Liability: Reduce pension liabilities by harmonizing the proposed pension rules of the civil servants with the existing ones. With harmonization and integration, fiscal liabilities decrease.

4. Best Practice: The long-term goal is a single, national scheme for reasons of equity, administrative efficiency, and labor market flexibility in line with international best practices. This does not preclude, however, additional top-up schemes designed to achieve specific human resource objectives.

II. VISION & MISSION STATEMENTS/OBJECTIVES/ & CORE VALUES

The PSP board, acting in its fiduciary capacity, is dedicated to seeing that the PSP system accomplishes its vision and mission.

1. **The PSP system vision statement:** "As provided by law, the PSP system will provide retirement security for the Government of Liberia's retired employees."
2. **The PSP system mission statement:** "The PSP system will achieve its vision by acting in the best interest of its participants, maintaining the financial security of the trust fund, and providing exceptional service to members, benefit recipients and employers."
3. The objectives of the PSP system:
    a. Create a single integrated pension scheme that covers all branches of government including civil service, foreign service, public service, judges, and legislators (military not included);
    b. Ensure that every person who has worked in the civil service and public service receives his/her retirement benefits as and when due;
    c. Assist GOL employees by ensuring that they save for their livelihood during old age;
    d. Establish a uniform set of rules and regulations for the administration and payment of retirement benefits in the public sector;
    e. Ensure that disability and survivor pension benefits are provided;
    f. Restrict the growth of outstanding pension liabilities.
4. **Core Values**: PSP board supports the vision statement and mission statement by exemplifying the following core values when serving the public:
    a. Professionalism and integrity
    b. Exceptional teamwork
    c. Excellence in service

III. BRIEF OVERVIEW OF THE PSP SYSTEM

As stated in Chapter 1 of this manual, the public Service Pension System is being documented through a legal process jointly undertaken by the LRC and the CSA. The salient features of PSP are given as follows.

1. **Benefits:**

   a. PSP is a contributory defined benefit pension scheme in addition to the existing NPS/NASSCORP;

   b. Pensions will be awarded according to pre-established, legislated benefit formulas;

   c. Service will be rewarded based on tenure;

   d. Each year of service will earn a benefit equal to a fixed percentage of total remuneration;

   e. Pensions will be based on <u>total</u> remuneration as defined in the amended NASSCORP Act 89.70 "Definitions" (section 15) that includes wages, salaries, incentive payments and allowances;

   f. All government service will count toward the pension regardless of branch of service or when service was rendered (excluding military);

   g. Pensions for disability and survivors of workers who die in service will be added as new benefits;

   h. When pensioner dies, widow/widower will receives 50% of the pension in addition to NASSCORP widow/widower's pension (until she/he remarries or dies);

   i. Minor child/children will receive benefits until age 18 if there is no widow/widower, or if the widow/widower remarries;

   j. If the worker dies while still active, the widow/widower receives the amount of the worker's disability pension plus the NASSCORP widow's/widower's pension.

2. **Protection:**

   a. Purpose: Protect pension accumulations when workers move among government services and in and out of government service;

   b. Vesting: After one year of service, all future service is counted toward pension;

   c. Non-forfeiture: Once vested, credited service cannot be reduced regardless of months or years not in government service;

   d. Retirement benefits: Employees may receive retirement benefits after 25 years of service or at age 65 with a minimum of 10 years of service;

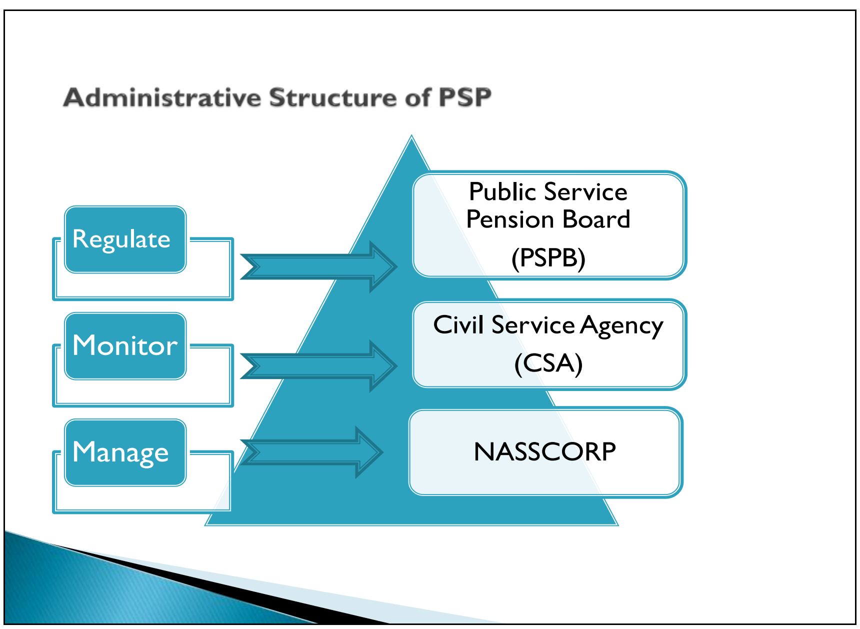
   e. Deferred retirement: Current or former employees who meet age and service requirements may receive a pension regardless of years since last served.

IV. GOVERNANCE STRUCTURE—BEST PRACTICE FRAMEWORK

Governance structure has been the main focus of attention of all past studies and research by experts leading to the formulation of best practices. However, all studies agree on the basic structure of governance. According to these studies, a pension fund's governance structure is typically comprised of its board, executive management, and contracted service providers. Within this structure and under the fund's statutory framework, the board sets strategy, approves implementation plans and oversees performance and risk through executive management. The board delegates specialized functions such as actuarial studies, asset management, benefits administration, and auditing to internal staff and/or contracted service providers. The fund functions within a framework that is comprised of statutes, rulings, agreements, policies and contracts that regulate system operations. ***Risk oversight is a key responsibility of the board.***

Based on the above principle, a new governance structure is being put in place for the Government of Liberia PSP system. There will be a PSB Board that will regulate, guide and ensure an effective administration of the pension funds proposed to be outsourced to NASSCORP. CSA, on the other hand, will monitor the performance of NASSCORP with respect to PSP funds while NASSCORP will manage the funds on a day to day basis. The following diagram provides a graphic presentation of the top level governance structure of the PSP fund:

Figure 1. Administrative Structure of PSP



V. BOARD PRACTICES

A pension fund should establish, document and adhere to a set of practices that have a proven impact on performance and risk oversight. Some of these practices are mandatory (e.g. actuarial valuations) while others may be optional. Recommended practices include:

1. Development of a strategic plan or equivalent that guides the fund towards its goals;
2. Adoption of a fiduciary education program to continuously improve fiduciaries' skillsets;
3. A program of assessments and audits to evaluate internal controls, performance and risk;
4. Actuarial valuations to inform the board of the fund's future financial needs;
5. Asset allocation studies to identify asset mixes for meeting future financial needs; and
6. A corporate governance approach under which the fund votes for its proxies.

SIZE OF BOARD

The PSP board, as per best practices, should be neither so large as to be unwieldy nor so small that it runs the risk of not being able to obtain a quorum to make decisions. Optimal board size is between 7 and 13 members, depending on the size and complexity of the system.

BOARD COMPOSITION

Any board that operates effectively includes members who have a mix of skills, competencies, and behaviors, including leadership, teamwork, communication, planning and organizational abilities, and knowledge of sound decision-making principles. A successful board actively pursues and makes use of these skills and behaviors. Board composition should reflect the varied interests of those responsible for funding the plan and should include plan participants and retirees, citizens of the governmental unit, and officers of the plan sponsor, as well as independent directors. This assures balanced deliberations and decision making. Based on the above principles, the PSP Board may be comprised of the following members:

Table 1. Public Service Pension Board—Government of Liberia

GOL/Employees Representatives	No	Position
Civil Service Agency	1	Chairman
Ministry of Labor	1	Member
Ministry of Health	1	Member
Ministry of Education	1	Member
Ministry of Finance	1	Member
Judiciary	1	Member
Legislature	2	Member
Law Reform Commission	1	Legal Adviser
Civil Service Agency	1	Secretary
General Auditing Commission	1	Auditor
Civil Service Association of Liberia	1	Member
National Pensioners Association	1	Member

BOARD EDUCATION

New trustees/members of the Board must receive orientation training explaining their responsibilities and fiduciary duties as well as the duties of the CSA, NASSCORP and agents (e.g., actuaries, attorneys, advisors). A program of continuing education must be developed and participation should be strongly encouraged or required.

VI. BOARD POLICIES:

A fund should adopt and adhere to a set of policies designed to guide system operations toward the achievement of stated goals within established risk tolerances. While their form may vary, a board's key policies and procedures should include:

CODE OF ETHICS

According to the best practices, every governing board should adopt a code of ethics to provide standards of conduct for board members and plan staff. The code of ethics should, at a minimum, address the following:

i) **Loyalty**. Public fund fiduciaries must make all decisions in the best interest of system participants, placing those interests above all other interests.

ii) **Decision Making**. Decisions must be made in a fair, honest, and open manner, with information shared among fellow fiduciaries and all interested parties to enhance the quality of the system's decision-making process. Policies should discourage fiduciaries, who are plan participants, from voting on matters that advance their personal financial interests, and should provide a mechanism for independent trustees to vote separately on such matters if a conflict of interest affects multiple members.

iii) **Personal Conduct**. Every public system's fiduciaries, including those who are under contract to provide services to the system, must take all reasonable steps necessary to ensure a full and accurate understanding of the trust, conflicts of interest, financial disclosures, and other ethics-related laws that apply to the system. They must conduct their official and personal affairs to ensure that they cannot be improperly influenced in the performance of their duties.

iv) **Relationships with Others**. To foster trust and limit practices that create the appearance of conflicts of interest, plan sponsors should consider including restrictions in their code of ethics on the following behaviors:

   a. Former employees **and** trustees soliciting business from the plan for a specified period of time
   b. An employee or trustee accepting contributions or material gifts from current or potential business partners, their agents, or their representatives

c. Payment of finder or incentive fees to third-party marketers or other consultants for new or increased business, without full and advance disclosure and other controls where appropriate

d. Any action that would bring into question the independence of the board or staff or the propriety of the system's decision making

e. Succession Planning – To ensure continuity of governance, there must be a policy for transition of leadership.

f. Investment Policy – The board must develop a comprehensive set of policies and procedures for investing and safeguarding plan assets.

g. Professional and Contractual Services – The board must have policies and procedures for selecting agents such as actuaries, attorneys, auditors, advisors, and fund managers. These policies and procedures must encourage an open process free of actual or perceived bias and conflicts of interest.

BOARD CODE OF CONDUCT:

i. **Fiduciary Duty:** Board members are trustees of the PSP system funds and as such are subject to strict fiduciary standards of conduct. The board members must act solely in the best interests of the participants and beneficiaries of the system and for the exclusive purposes of providing them with benefits and defraying reasonable administrative expenses. Internationally, this duty of loyalty means board members must wear only one hat as a trustee and not at the same time wear a second hat as a representative of outside interests. The members are required to discharge their duties with respect to the system with the care, skill, prudence and diligence.

ii. **Conflict of interest & Confidentiality:** Board members are prohibited from engaging in certain party-in-interest transactions (e.g., furnishing of goods or services between the system and a relative of a board member) and are prohibited from using assets of the system for their own interests. Board members are prohibited from receiving any consideration for their own personal account from any party dealing with the system in connection with a transaction involving the system's assets. Board members may not act on behalf of a party whose interests are adverse to the system, its participants or beneficiaries. Board members are prohibited from having any direct or indirect interest in the gains or profits of any board investment. Furthermore, Board members are prohibited by law from releasing information about PSP or any of its members that would breach any duty to protect such information.

(See the Conflict of Interest and Confidentiality Policy adopted in Nigeria and UK attached as Appendix 2)

BOARD OPERATION

i. **Meetings:** Attendance at board meetings is considered to be an essential element of a board member's fiduciary duty. Therefore, members are expected to attend all meetings unless there are extenuating circumstances that prevent such attendance.

ii. **Notice of regular meeting:** Regular meetings of the board occur on a specific day during the **months** of March, June, September, and December each year.

iii. **Notice of special meetings:** Special meetings may be called by the Chairman upon giving **reasonable** notice to each member. Notice of a special meeting will be delivered and posted in a conspicuous place at CSA as soon as feasible but at least 24 hours before the scheduled meeting. The business to be transacted at special meetings shall be specified in the notice of meeting.

iv. **Quorum.** The board must have a quorum of its members present at a meeting to conduct **business** and take official action. Five members of the board constitute a quorum. Each member is entitled to one vote. Four votes or a majority of the members present at the meeting, whichever is the larger number, will be necessary for a decision by the board. A majority of the voting members of a committee constitute a quorum of the committee.

VII. ROLES & RESPONSIBILITIES OF THE BOARD AND OTHER STAKEHOLDERS

The board will undertake its oversight role with an emphasis on outward vision, rather than an internal preoccupation. The Board's role is to regulate, supervise and ensure the effective administration of pension matters.

1. Role & Responsibilities of the PSP Board

a. The board will cultivate a sense of group responsibility.

b. The board will direct, control, and inspire the organization through the careful establishment of broad written policies reflecting the board's values and perspectives.

c. The board's major policy focus will be on the intended long-term impacts outside the organization, not on the administrative or programmatic means of attaining those effects.

d. The board will enforce upon itself matters such as attendance, preparation for meetings, policymaking principles, respect of roles, and ensuring the continuation of governance capability.

e. Continual board development will include orientation of new board members in the board's governance process and periodic board discussion of process improvement.

f. Determine PSP vision and mission. It is the board's responsibility to create and review a statement of mission and purpose that articulates PSP goals.

g. Contract for the services of an Executive Secretary from CSA to act as the Chief Administrative Officer of the board.

h. Provide proper financial oversight. The board approves the annual budget and ensures that proper financial controls are in place.

i. Ensure legal and ethical integrity, adhere to fiduciary duties, and maintain accountability. The board is ultimately responsible for ensuring adherence to legal standards and ethical norms.

j. Ensure effective organizational planning. The board will be involved in the strategic planning process and assist in monitoring the system's goals.

k. Support the Executive Secretary and assess his/her performance. The board should ensure that the Executive Secretary has the moral and professional support he or she needs to further the system's goals.

2. Roles & Responsibilities of NASSCORP

a. Open retirement savings accounts for employees.

b. Invest and manage the pension funds in domestic fixed income securities and other instruments as the PSP Board may from time to time prescribe.

c. Maintain books of accounts on all transactions relating to the pension funds managed.

d. Provide regular information on investment strategy to the employees or beneficiaries and annual benefits statements.

e. Pay retirement benefits to employees in accordance with the provisions of the Act.

f. Credit the retirement savings account of the employee.

g. Conduct regular self-audits and ensure an external audit.

3. Role of CSA as the Pension Administration Supervisor

a. Determine and document who is responsible for which component.

b. Determine and document the chain of delegation.

c. Circulate the components, responsibilities and reporting relationships to all participants in the pension governance process.

d. Provide ongoing training and education.

e. Regularly review and update the assigned roles and responsibilities.

f. Provide goals for the administration of the plan.

g. Monitor the self-assessment of NASSCORP's pension governance at regular intervals (at least once a year).

h. Facilitate PSP Board meetings, take minutes and document Action plans.

i. Document all key decisions.

j. Have an external governance audit performed on the pension plan at regular set intervals (frequency of audit will depend on the assessment of risk by the General Auditing Commission (GAC)).

4. Responsibilities of Pension Fund Custodians (Central Bank)

a. Warehouse the pension fund assets.

b. At no time will the PFA hold the pension fund assets.

c. The employer sends the contributions directly to the Custodian, who notifies the PFA of the receipt of the contribution.

d. The Custodian will execute transactions and undertake activities relating to the administration of pension fund investments upon instructions by the PFA.

5. Role of Auditors GAC (General Auditing Commission)

a. Risk based audit

b. Compliance audit

c. Financial audit

d. Performance audit

6. Role of CSA as the Executive Secretary of the Board

a. **Meeting Agenda**: The Executive Secretary, in coordination with the board chair and committee chairs, will prepare and distribute a written agenda for all meetings of the board and committees. The agenda items and related materials for board and committee meetings will generally be distributed to board members in advance of the meeting. In addition, the agenda and general action items will be posted to the PSP system's public website.

b. **Routine Reporting**: A system of routine reporting will be developed to monitor the performance of the system and ensure that the board is carrying out its fiduciary responsibilities. The following written reports and oral reports will be provided regularly to the board:

i Reports providing a status of major issues and system activities

ii Investment reports, including asset allocation and performance reports

iii Comprehensive annual financial report, annual operating budget, and interim financial reports;

iv Retirement, Disability, and Death reports;

v Committee reports;

vi Annual actuarial valuation and other reports;

vii Legislative reports;

viii Litigation status reports;

ix Strategic plan progress reports; and

x Potential material issues or problems.

VIII. BOARD COMMITTEES

The Board may appoint temporary or special committees for such purposes as it deems necessary. Normally, the following committees are formed to assist the Board in its smooth functioning:

1. Insurance Committee
2. Investment Committee
3. Legislative Committee
4. Personnel Committee
5. Scholarship Committee
6. Appeals Committee
7. Governance & Audit Committee

IX. STRATEGIC PLANNING

The PSP system should adopt a strategic planning approach in the form of a multi-year plan. Strategic planning is a hallmark of successful organizations. It provides the board with a mechanism to map out long-term goals along with the implementation steps necessary to achieve them. Key components include:

- Goals and performance measures for key functions such as benefits administration;
- Long-term investment goals, investment risk tolerances and diversification objectives;
- Multi-year budgetary needs for fund operating units and for the system;
- Service quality goals, measures and tactical plans for achieving them; and
- Plans for strengthening the fund's compliance program and internal controls

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X. KEY PERFORMANCE INDICATORS

In order for the Board to set goals and objectives for the management and administration of the Pension fund, some indicative key performance indicators are presented as follows:

KEY PERFORMANCE INDICATORS

Customer Delivery Performance to Customer — by Date Delivery performance to Customer — Quality Customer Satisfaction Rate Customer Loyalty Customer Retention	**Financial** Reserve Ratio Rate of Return on Investment Income to Expenditure Ratio Income to Pay-out Ratio Cash Flow Financial results Risk Management
Business Processes Number of Accounts Investment Strategy & Policy Self-audit Actuarial Evaluation	**Learning & Growth** Functional Excellence Strategic Readiness Leadership Skills Employee Turnover

I.	CUSTOMER	POOR	FAIR	GOOD	EXCELLENT	
No.	**KPI**	**1**	**2**	**3**	**4**	**Measurement Tool**
1	Strategic Readiness	2 Weeks	10 Days	1 Week	5 Days	File Records
2	No. of Customers Delivered	5	10	15	20	File Records
3	Customer Satisfaction Rate	>60%	60%	75%	95%	Periodic Survey
4	Customer Loyalty	>60%	60%	75%	95%	Periodic Survey

2.	FINANCIAL	POOR	FAIR	GOOD	EXCELLENT	
No.	**KPI**	**1**	**2**	**3**	**4**	**Measurement Tool**
1	Reserve Ratio	3	5	7	10	Financial Reports
2	ROI	1%	3%	5%	10%	File Records
3	Administrative Expenses/Contribution	45%	35%	25%	15%	Financial Reports
4	Income/Payout Ratio	>60%	60%	75%	95%	Financial Results
5	Risk Management	5 years	4 years	3 years	1 year	Actuarial Review

3.	BUSINESS PROCESS	POOR	FAIR	GOOD	EXCELLENT	
No.	**KPI**	**1**	**2**	**3**	**4**	**Measurement Tool**
1	No. of Accounts	30 K	35 K	40 K	$% K	Database
2	Investment Policy & Strategy Review	5 years	4 years	3 Years	1 year	ROI
3	Self-Audit	5 years	4 years	3 years	1 year	Audit Reports
4	Actuarial Evaluation	5 years	4 years	3 years	1 year	Actuarial Reports

4.	LEARNING & GROWTH	POOR	FAIR	GOOD	EXCELLENT	
No.	**KPI**	**1**	**2**	**3**	**4**	**Measurement Tool**
1	Strategic Readiness Reports	3 years	1 year	Half yearly	Quarterly	Self-Audit Reports
2	Functional Excellence Reports					Actuarial Reports
3	Leadership Skills					Audit Reports
4	Employee Turnover					Database

XI. STAKEHOLDER COMMUNICATIONS

The PSP system should communicate regularly with members and other stakeholders through multiple forms of media, including website notifications, publications, and letters, as well as through required reports. Communications provide transparency into fund operations and may increase members' satisfaction, while strengthening the fund's reputation. Key components may include:

- A mission statement that describes the fund's purpose to members and the public;
- Surveys that measure participant satisfaction, while providing a basis for improvements;
- Updates, letters, annual reports on fund operations, and forms for member beneficiaries;
- Reports on fund performance, board initiatives, and external events that impact members; and
- Governance principles that summarize the fund's structure and statutory framework.

XII. ROADMAP & WORK PLAN

A work plan has been prepared to provide a road map for the implementation of the PSP system to enable a smooth roll-out of the system by July 2013. The work plan is attached as Annex 1.

XIII. CONCLUSION

Contributory pension plan governance activities have typically focused on operational activities, driven by the desire to minimize the risks (cost, time, irritation, etc.) of administrative errors. The continually changing legislative and regulatory environment has also led to this operational focus, taking up time that could otherwise be spent on more strategic areas.

Yet, looking into the future, fiduciaries generally want to focus more on value-adding activities, especially developing and implementing more effective investment and member engagement strategies.

In their 2007 paper, Clark and Urwin identified 12 attributes of good pension scheme governance, which were largely derived from an examination of leading global defined-benefit pension schemes. Six of these attributes could be regarded as being within the reach of most funds. The core best-practice factors follow:

Table 2. Core Best-practice Factors

Mission clarity	Clarity of the mission and the commitment of stakeholders to the mission statement
Effective focusing of time	Resourcing each element in the investment process with an appropriate budget, considering impact and required capabilities
Leadership	Leadership being evident at the board/investment committee (IC) level, with the key role being the board chairman
Strong beliefs	Strong investment beliefs commanding fund-wide support that align with goals and inform all investment decision making
Risk budget framework	Frames the investment process by reference to a risk budget aligned to goals and incorporates an accurate view
Fit-for-purpose manager line-up	The effective use of external managers, governed by clear mandates, aligned to goals, selected on fit-for-purpose criteria
Exceptional best-practice factors	
Investment executive	The use of a highly investment competent investment function tasked with clearly specified responsibilities, with clear accountabilities to the IC
Required competencies	Selection to the board and senior staff guided by numeric skills, capacity for logical thinking, ability to think about risk in the probability domain
Effective compensation	Effective compensation practices used to build bench strength and align actions to the mission, different strategies working according to fund context
Competitive positioning	Frame the investment philosophy and process by reference to the institution's comparative advantages and disadvantages
Real-time decisions	Utilize decision-making systems that function in real time not calendar time
Learning organization	Work to a learning culture which deliberately encourages change and challenges the commonplace assumptions of the industry

A contributory pension plan is quite different in nature from non-contributory plan, so the application of these attributes is subject to some modification and extension. While both pension plans face similar governance challenges, contributory plans have some additional areas to address.

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ANNEX 1. TWELVE MONTH WORK PLAN AND ROADMAP—CSA PENSIONS REFORM/SCHEME SUPPORT

12 MONTH WORK PLAN & ROADMAP - CSA PENSION REFORM/SCHEME SUPPORT																
	I	IMPLEMENTATION PHASE	Responsibility	Status	July 2012	Aug 2012	Sept 2012	Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	June 2013
	A	***Preparations for implementation***														
	1	Prepare Short-term Plan	MT	C	■	■										
	2	Prepare 1 year work plan	MT	I	■	■										
	3	Prepare presentation for Cabinet	MT	C		■										
	B	***Legal Drafting***														
	1	Initial meeting with Law Reform Commission	MT/EB	O		■										
	2	Discuss next steps with LRC	DG/EB	O		■										
		i. Draft PSP Scheme/SLA/COE	EB/LRC	O		■	■									
		ii. Submit draft for Executive approval (CSA/MOF)	EB/LRC	O				■	■							
		iii. Submit draft to Legislature approval	EB/LRC	O					■	■	■					
		iv. Enactment	EB/LRC	O								■	■			
	C	***Organization Structure***														
	1	Finalize structure for PSP Board (PSPB)	DG/CSA	I		■										
	2	Finalize structure for PSPB Secretariat	MT/EB	I		■										
	3	Get approval of PSPB Secretariat organization	DG/EB	I		■										
	3	Get Approval of Secretariat Role	DG/EB	I			■	■								
	D	***Human Resource***														
	1	Assess Human Resource Needs CSA/NASSCORP	MT/EB	I		■	■									
	2	Develop skills required CSA	EB	I				■	■							
	3	Evaluate existing HR/CSA for further deployment	EB	I		■										
	4	Identify skills gaps	MT/EB	I			■									
	5	Get approval for recruitment of HR	EB	I				■								
	6	Recruit HR with the necessary skills	EB	I				■								
	E	***Training***														
	1	Assess training needs of HR	MT/EB	O		■										
	2	Identify training resources	EB	O			■									
	3	Meet with LIPA & other training institutions	EB	O			■									
	4	Formulate training plan	EB	O				■								
	5	Get approval of training plan	DG/EB	O				■								
	6	Start training of HR	EB	O					■	■						
	F	***Sustain Phase***														
	1	Roll out Pension Plan	DG/EB	O												■
		a. Develop salient features of the new Scheme	EB/PU	O							■	■				
		b. Develop FAQ's	EB	O							■	■				
		c. Conduct Q&A sessions with employees	EB/PWG	O									■	■	■	
		d. Get employees buy-in	EB/PWG	O											■	
		e. Implement web based pension information resources	EB/IT	R										■	■	■
	2	Regular newsletters to members	EB/IT	R												■
	3	Annual reports to members	EB/IT	R												■
	4	Annual external audit	EB/PU	R												■

		12 MONTH WORK PLAN & ROADMAP - CSA PENSION REFORM/SCHEME SUPPORT														
			Responsibility	Status	July 2012	Aug 2012	Sept 2012	Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	June 2013
	II	**CHANGE MANAGEMENT (CM)**														
	1	***Stakeholder Management (SM)***														
		a. Conduct due diligence of NASSCORP	GAC/CSA	R												
		b. Discuss SLA with NASSCORP	LRC/CSA	R												
		c. Finalize Fees Structure	CSA/NASSCORP	R												
		e. Clarify Roles & Responsibilities of the following stakeholders														
		i. PSP Board	CSA	O												
		ii. CSA	CSA	O												
		iii. NASSCORP	CSA	R												
		iv. Central Bank	CSA	O												
		v. Law Reform Commission	CSA	O												
		v. GAC (General Auditing Commission)	CSA	O												
		f. Develop Stakeholders management plan	CSA	O												
		i. Categorize Stakeholders	CSA	O												
		ii. Map Stakeholders	CSA	O												
		iii. Assign their roles & responsibilities	CSA	O												
		iv. Develop Action Plan for their role till Roll-out	CSA	O												
	2	***Communication Management***														
		a. Develop initial communication management plan	CSA	R												
		i. Identify the target audience	CSA	R												
		ii. Share work plan with them	CSA	R												
		iii. Conduct follow-up meetings with them	CSA	R												
		b. Develop tools to communicate	CSA													
		i. Workshops topics & modules	CSA	R												
		ii. Focus Groups methods & process	CSA	R												
		iii. Interviews instrument	CSA	R												
		iv. Meetings agendas	CSA	R												
		v. Survey instruments	CSA	R												
		c. Engage Stakeholders	CSA													
		i. Conduct Workshops	CSA	R												
		ii. Conduct Focus Groups	CSA	R												
		iii. Conduct Interviews	CSA	R												
		iv. Organize Meetings	CSA	R												
		v. Conduct Surveys	CSA	R												
		d. Design Comm. Plan to align PSP delivery through Mobile Money	JS/GEMS/CSA	O												

Legend: Responsibility	
MT	M Talha
EB	Ernest Bruce
DG	Dr. Allen
GAC	General Auditing Commission
IT	Information Technology Department
PSP	Public Service Pension
COE	Code of Ethics
MOF	Ministry of Finance
PWG	Pension Working Group
SLA	Service Level Agreement

O	Open
C	Complete
I	In process
R	Risk involved

ANNEX 2. SAMPLE CODE OF ETHICS FOR PENSION SCHEMES

REPUBLIC OF LIBERIA

CIVIL SERVICE AGENCY

EXAMPLES

Nigeria

United Kingdom

AUGUST 2012

PenCom
Nigeria

CODE OF ETHICS AND BUSINESS PRACTICES FOR LICENSED PENSION OPERATORS

RR/P&R/08/012

www.pencom.gov.ng

National Pension Commission

une 2008

About this Code

The Code of Ethics and Business Practices for Licensed Pension Operators is divided into seven sections.

Section one is the introduction while section two addresses the issue of integrity, setting standards for personal integrity and commitment, accuracy of records and reporting.

Section three addresses issues of ethics in competition such as respect for competitors, confidentiality of information, marketing, advertisements, gifts and inducements.

Sections four and five, respectively, deal with issues of relationship between stakeholders and conflict of interest.

Section six highlights the importance of compliance with the Code, while Section seven sets out broad guidelines for the enforcement of the Code.

The requirements of this Code are consistent with the provisions of the Pension Reform Act, 2004 and are also considered enforceable within the industry.

Review and Enquiries

The Code shall be subject to review by the Commission from time to time as the need arises.

All enquiries regarding this Code shall be directed to the Director General, National Pension Commission.

National Pension Commission

RR/P&R/08/012

CODE OF ETHICS AND BUSINESS PRACTICES FOR LICENSED PENSION OPERATORS

1.0 Introduction

1.1 Not until of recent, many companies and professional firms had viewed business ethics only in terms of administrative compliance with legal standards and adherence to internal rules and regulations. Attention to business ethics is on the rise across the world and many companies realize that in order to succeed, they must earn the respect and confidence of their customers. In addition, companies, professional firms and individuals alike, are increasingly being held accountable for their actions, as the demand for higher standards of corporate social responsibility, increases.

1.2 The Pension Reform Act, 2004 and all the guidelines so far issued by the Commission are all geared towards laying a solid and sustainable foundation for the Nigerian pension industry. However, as versatile and re-assuring as the PRA 2004 and the guidelines are, the stakeholders" efforts can be thwarted if the contemporary issues of ethics and professionalism are not addressed and codified. The need for codes of ethics and professionalism is further re-enforced by the „free entry and free exit" stance of the Commission, as the licensing of more operators has resulted in heightened competition and thinning of pension market.

1.3 The Code of Ethics and Business Practices has therefore been developed to outline ethical standards that would be operational within the pension industry.

2.0 Integrity

2.1 Professional Integrity and Commitment

2.1.1 PFAs, PFCs and CPFAs shall perform professional services with honesty, integrity, skill and care. PFAs and PFCs have obligation to observe standards of professional conduct in the course of providing advice, recommendations and other services performed for Retirement Savings Accounts (RSA) holders.

2.1.2 PFAs and PFCs shall work in a spirit of respectful collaboration and co- operation with those with whom they interact without compromising their personal or professional integrity.

2.1.3 PFAs shall not discriminate against their clients, on the basis of age, gender, race, ethnicity, culture, nationality, religion, disability, socio- economic status, or any basis proscribed by law.

2.1.4 PFAs and PFCs shall at all times, act honestly and in such manner that third parties are not caused to be misled. They shall not in the course of discharging their professional duties knowingly or recklessly disseminate false or misleadinginformation to third parties.

2.1.5 PFAs and PFCs shall not engage in any conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that would negatively impact on the Pension industry.

2.1.6 The integrity of information must not be compromised.

2.2 Accuracy of Records and Reporting

2.2.1 PFAs and PFCs shall ensure the validity of the reports and statements issued by them.

2.2.2 Honest and accurate recording and reporting of information is extremely important. Transactions must be recorded promptly and accurately in order to permit the preparation of accurate financial and other records. Records shall not be falsified in any manner. No entry shall be made that intentionally hides or disguises the true nature of any transaction.

3.0 Ethics and Competition

3.1. Respect for Competitors

3.1.1 PFAs and PFCs should not undermine other PFAs" and PFCs" stability in the process of marketing, so that competition is made healthy.

3.1.2 PFAs and PFCs shall not reveal information about other PFAs or PFCs without their permission and shall take reasonable precautions to avoid such information from being disclosed unintentionally.

3.2 Confidentiality of Information

3.2.1. PFAs and PFCs shall respect the confidentiality of data made available to them from time to time.

3.2.2 PFAs and PFCs shall not release any statement that would be detrimental to the interest of other PFAs and PFCs to the press, any other form of media, or any third party.

3.2.3 PFAs and PFCs shall never disclose in their writings, reports, teaching materials or other public media or otherwise make public, any information they have acquired about persons, employers or clients in the course of their professional work, unless disclosure is both legal and that they have either taken reasonable steps to disguise the identity of the person, employer or client, or they have the express permission to disclose.

3.2.4 PFAs and PFCs shall not make public derogatory comments about their clients, or colleagues.

3.2.5 PFAs and PFCs shall never, knowingly use material that is illegal, immoral, or which may hurt or damage a person or group of people. If exposed to illegal material, the PFAs and PFCs shall advise

their client of the illegal nature of the material and take reasonable steps to inform the relevant authorities of the existence of the material.

3.3 Marketing and Advertising

3.3.1 PFAs and PFCs shall act responsibly and prudently in marketing. In particular, PFAs shall ensure that all advertising and promotional literature is fair and reasonable, does not contain misleading information and complies with all relevant guidelines, whether relating to their own PFA or their competitors.

3.3.2 PFAs and PFCs shall not engage in any advertising or business solicitation activities that are false or misleading, such as but not limited to making promises outside its areas of control and claims of supremacy in the industry.

3.3.3 "Advertising" encompasses all communications by whatever medium, including oral communications, which may directly or indirectly influence any person or organization to decide whether there is a need for such professional services.

3.4 Gifts and Inducements

3.4.1 Staff of PFAs and PFCs should avoid directly or indirectly accepting or giving any gift, gratuity, or anything of monetary value for anything done or omitted to be done during the discharge of their duties.

3.4.2 Similarly, their families should endeavor to avoid all situations in which the direct or indirect receipt or expectation of gifts, hospitality, bequests, or other benefits might be interpreted as a means of influencing the PFAs and PFCs in their official capacity to advantage or disadvantage any person.

4.0 Relationships between Stakeholders

4.1 PFAs and RSA Holders

4.1.1 PFAs shall perform professional services with courtesy when dealing with RSA holders.

4.1.2 PFAs shall cooperate with RSA

holders taking time to explain or clarify any detail RSA holders might request.

4.1.3 PFAs shall always meet their commitments to RSA holders. Such commitments shall not be taken lightly, and should never be broken.

4.1.4 Differences of opinion between PFAs and RSA holders may arise. Discussion of such differences should be conducted objectively and with courtesy.

4.1.5 An RSA holder has an indisputable right to choose and change his/her PFA.

4.2 PFAs and PFCs

4.2.1 PFAs and PFCs shall be transparent in all their dealings except in cases where the needs of business security dictate otherwise and shall hold themselves accountable to the appropriate authority/body.

4.2.2 The operations of the PFA should be carried out independently and should not in any way leverage upon or appear to leverage on the infrastructure of the PFC, its parent company or associate.

5.0 Conflict of Interest

5.1. A "conflict of interest" may exist whenever the interests of a director or staff conflict in any way (or even appear to conflict) with the interests of the PFA or PFC.

5.2 Transparency and Objectivity

5.2.1 While directors and staff should be free to make personal investments and enjoy social relations and normal business courtesies, they must not have any interests that adversely influence the performance of their responsibilities. A conflict situation can arise when a director or staff takes actions or has interests that may make it difficult to perform his or her Company responsibilities objectively.

5.2.2 Conflicts of interest also may arise when a director or staff, or members of their families, receives improper personal benefits as a result of their position with the PFA or PFC, either received from a Company or an individual.

5.2.3 Staff of PFAs and PFCs should do all in their power to ensure their impartiality and independence and avoid all situations that could result in a conflict of interest or be perceived as such. They should not use their position for the private gain of their spouse or children, or for the private gain of any other person.

5.2.4 Staff of PFAs and PFCs should therefore avoid all situations in which their private interests, whether pecuniary or otherwise, conflict or have the potential to conflict with their duty. Nor should they place themselves in a position whereby they are morally obliged to accord preferential treatment or special consideration to any person or entity.

5.2.5 Where an individual intends to perform a paid service for one operator, he should not be an employee of another operator, or must have relinquished his appointment.

5.3 Disclosure

5.3.1 Staff of PFAs and PFCs shall at the earliest opportunity bring to the notice of their employers, in all cases, whereby conflict of interest arises in the discharge of his/her duties tosuch employers or client as the case may be.

5.3.2 Each PFA and PFC should have a policy to prohibit such conflicts as enumerated above. Conflicts of interest may not always be clear-cut, so if directors or staff has questions, they are encouraged to consult with the Compliance Officers of their respective organizations or the Commission. Any director who becomes aware of a conflict or potential conflict should bring it to the attention of the Commission.

6.0 Compliance

6.1 PFAs and PFCs shall be knowledgeable about the PRA 2004 and this Code of Ethics and Business Conduct, keeping current with revisions and abiding by its provisions. Laws and regulations may impose binding obligations on the PFAs and PFCs. Where the requirements of law or regulation conflict with this Code the requirements of law or regulation take precedence.

7.0 Enforcement of the Code

7.1 It is the duty of PFAs and PFCs to assist and cooperate with the Commission in the course of enforcing this code; and the Commission shall acknowledge any such support in that regard.

7.2 In order to ensure compliance with this code of conduct, it will not be enough to disseminate the code, Employees of PFAs and PFCs would be required to digest it and pledge to implementing it by endorsing. "SOFT" and "HARD" measures would be used to ensure that the PFAs and PFCs act in accordance with the code. The Commission shall therefore encourage and monitor the compliance.

7.3 On the other hand, exemplary behavior and conduct should be rewarded. The top management of PFAs and PFCs should provide moral leadership at all times. Employees should receive regular training on issues of integrity and on what they can do to ensure proper compliance. Peer reviews should also be encouraged.

8.4 Disciplinary sanctions should be taken when appropriate. Cases of breaches shall be referred to the Operators" Ethics and Privileges Committee.

Code of Conduct for Members of a Pension Scheme Governing Body

CFA INSTITUTE

Centre for Financial Market Integrity

The mission of the CFA Institute Centre for Financial Market Integrity is to be a leading voice on issues of fairness, efficiency, and investor protection in global capital markets and to promote high standards of ethics, integrity, and professional excellence within the investment community.

CFA Institute, with more than 94,000 members worldwide, is the not-for-profit organization that awards the Chartered Financial Analyst® designation.

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Code of Conduct for Members of a Pension Scheme Governing Body

CFA Institute Centre for Financial Market Integrity

Contents

Preamble

The conduct of those who govern **pension schemes**[1] significantly impacts the lives of millions of people around the world who are dependent on pensions for their retirement income. Consequently, it is critical that **pension plans**, also known as systems, schemes, or funds, are overseen by a strong, well-functioning **governing body** in accordance with fundamental ethical principles of honesty, integrity, independence, fairness, openness, and competence.

Codes of conduct addressing professional activities are standard practice for many successful investment firms and have become increasingly common among public and private pension schemes. Such codes are established to improve the performance of schemes sponsored by private enterprise and public pension schemes alike. Just as there is no one-size-fits-all governance structure for investment firms, there is no single governance structure that can be universally applied to pension schemes. Varying goals, restrictions, political environments, market conditions, manager/**trustee** competencies, regulatory schemes, and many other factors will affect the appropriate governance structure for any pension scheme.

This *Code of Conduct for Members of a Pension Scheme Governing Body* (the code) represents best practice for members of the pension governing body when complying with their duties to the pension scheme. Whether public or private, each pension scheme board that adopts the code will demonstrate its commitment to serving the best interests of **participants** and **beneficiaries**.

The code provides guidance to those *individuals* overseeing the management of the scheme regarding their individual duties and responsibilities and is not meant to replace the overall policies and procedures established for the governance of the pension scheme. However, to reflect best ethical practice, incorporating the fundamental ethical principles embodied in this code will enhance those policies and procedures.

Depending on the nature and type of pension scheme, members of the governing body may have responsibility for overseeing the administration of benefits as well as the scheme's investment decision-making process. All of the principles outlined in this code apply equally to the officials' duties in each of these roles.

For the purposes of this document, pension plans, systems, and funds are referred to collectively as "plans" or "schemes" and the individuals who serve on the governing body of the plans, schemes, or funds are referred to as "trustees."

[1] Bold indicates terms defined in Appendix A.

Code of Conduct

Pension trustees

1. Act in good faith and in the best interest of the scheme participants and beneficiaries.

2. Act with prudence and reasonable care.

3. Act with skill, competence, and diligence.

4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect their loyalty.

5. Abide by all applicable laws, rules, and regulations, including the terms of the scheme documents.

6. Deal fairly, objectively, and impartially with all participants and beneficiaries.

7. Take actions that are consistent with the established mission of the scheme and the policies that support that mission.

8. Review on a regular basis the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers, such as investment managers, consultants, and actuaries.

9. Maintain confidentiality of scheme, participant, and beneficiary information.

10. Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.

Code of Conduct Guidance

1. Act in good faith and in the best interest of the scheme participants and beneficiaries.

The overriding objective of the pension scheme is to serve as a secure source of retirement income. Pension scheme trustees have a primary duty to act for the benefit of the scheme participants and beneficiaries. Trustees comply with this duty by striving to safeguard and grow the assets of the pension scheme to provide maximum benefit to the scheme participants and beneficiaries.

To act in the participants' and beneficiaries' best interest, an effective trustee will

- Consider the different types of beneficiaries relevant to each pension scheme, including **deferred beneficiaries** and pensioners. Trustees often engage in a delicate balancing act of taking sufficient risk to generate long-term returns high enough to support real benefit increases for active participants who will become future beneficiaries while avoiding a level of risk that jeopardizes the safety of the payments to existing pensioners.

- Place the benefit of the scheme participants and beneficiaries above that of the **sponsor** of the pension scheme even if the trustee is employed by or appointed to the board of the pension scheme by the scheme's sponsor.

- Consider whether the position of the scheme is enhanced by any investment or action and will not be swayed by other considerations, such as the interests of the employer sponsor of the pension or other external institutions (e.g., trade unions or political parties).

However, trustees who exclusively seek to enhance the position of participants and beneficiaries cannot discount additional considerations, such as the effect of the trustees' decisions on the financial health and viability of the scheme sponsor or their impact on scheme investments.

In carrying out their responsibilities, effective trustees will

- Consider the additional objectives of ensuring an adequate match between plan assets and liabilities, maintaining stable funding costs over time, keeping management costs down, and paying benefits upon the death, disability, retirement, or other special circumstances of plan members.

- Carry out the scheme activities in a way that does not impose an unnecessary financial burden on the plan sponsor and serves the interests of plan members well but without excessive burden to the plan sponsor.

- Consider the position of other stakeholders when carrying out their duties to the fund. If appropriate under applicable law, it is acceptable for a trustee to consider the impact that the investment of scheme assets may have—for example, creating jobs or stimulating industry in the local area—so long as the interests of the participants and beneficiaries remain paramount.

- Consider all relevant risk and value factors deemed appropriate when designing the scheme's investment strategy. In addition to typical financial measures, these factors may include environmental, social, and corporate governance issues.

2. Act with prudence and reasonable care.

Effective trustees will exhibit the care and prudence necessary to meet their obligations to pension scheme participants and beneficiaries. The exercise of prudence requires acting with the appropriate levels of care, skill, and diligence that a person acting in a like capacity and familiar with such matters would use under the same circumstances.

In the context of serving as a trustee, prudence requires

- Acting in a judicious manner to avoid harming scheme participants and beneficiaries.
- Acting in good faith, without improper motive or purpose.
- Exercising power and discretion consistently.
- Following the investment parameters set forth by the scheme documents and applicable regulation.
- Having appropriate knowledge of and skill in balancing risk and return by seeking appropriate levels of diversification.

Pension schemes typically employ experts to advice, direct, and implement the decisions of their trustees. Both internal staff and **external consultants** are retained for this purpose. These "designees" thereby partner with the trustees in carrying out the responsibilities set forth in this code. However, external third-party service providers and professional consultants may have less accountability or vested interest in the outcome of actions resulting from their advice.

Trustees can rely on external third-party service providers and professional consultants provided that the trustees have made reasonable and diligent effort to

- Determine that the service providers act with appropriate skill, competence, and diligence.
- Determine that third-party experts are independent and free of conflicts of interest and have the proper incentives to act in the best interests of the fund participants.
- Ensure that the designees' decisions have a reasonable and adequate basis and that the decision process is adequately documented.

Trustees may also consider

- Appointing expert trustees.
- Hiring internal staff with investment expertise who may act as an internal consultant.
- Developing an internal investment team to manage the fund directly.

However, although the delegation of certain trustee responsibilities to experts is a prudent option, the trustees retain the ultimate fiduciary duty and responsibility to monitor the experts and to ensure that the delegated responsibilities are carried out appropriately.

3. Act with skill, competence, and diligence.

Skill and diligence require trustees to be knowledgeable about the matters and duties with which they have been entrusted. Ignorance of a situation or an improper course of action on matters for which the trustee is responsible or should at least be aware is a violation of this code. Improper or ill-advised decisions can be costly to the pension scheme and detrimental to the scheme's participants and beneficiaries. Prior to taking action on behalf of the scheme, effective trustees and/or their designees analyze the potential investment opportunities and act only after undertaking due diligence to ensure they have sufficient knowledge about specific investments or strategies.

Effective trustees will have knowledge and understanding of

- Trust and pension laws.
- Pension scheme funding and liabilities.
- The policies of the scheme.
- The strategies in which the scheme is investing.
- Investment research and will consider the assumptions used—such as risks, inflation, and rates of return—as well as the thoroughness of the analysis performed, the timeliness and completeness of the information, and the objectivity and independence of the source.
- The basic structure and function of the selected investments and securities in which the scheme invests.
- How investments and securities are traded, their liquidity, and any other risks (including counterparty risk).

The level of such analysis will depend on the investment style and strategy employed by the scheme. Certain types of investments, such as hedge funds, private equity, or more sophisticated derivative instruments, necessitate more thorough investigation and understanding than do fundamental investments, such as straightforward and transparent equity, fixed-income, or mutual fund products. Trustees may seek appropriate expert or professional guidance if they believe themselves lacking the expertise necessary to make an informed decision.

Trustees should not act—or fail to act—for the beneficiaries if lacking appropriate understanding or knowledge.

- Trustees are expected to take any training or educational opportunities necessary to ensure that their level of knowledge and understanding about pensions and investments remains current.
- Incumbent trustees and the pension scheme sponsor have a responsibility to ensure that new trustees receive proper training and education to fulfill their duties.

4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect their loyalty.

Effective trustees endeavor to avoid actual and potential conflicts of interest between their work with the pension scheme and other personal or outside interests. Conflicts of interest are many and varied, but the interests of pension scheme participants and beneficiaries are paramount.

Effective trustees

- Strive to avoid even the appearance of impropriety. Outside duties or responsibilities should not influence decisions because the trustee acts primarily for the beneficiaries and participants of the scheme.
- Take great care to put their duties to the pension scheme before their loyalty to the sponsoring entity that appointed them (such as a company plan sponsor or labor union).
- Do not solicit political contributions from service providers to the fund, either personally or on behalf of another.

- Do not allow political interests, philosophy, or political party loyalty to influence decisions made on behalf of the scheme.

- Do not put themselves in a position where their interests and the interests of the pension scheme conflict. Trustees who also are pension scheme participants or beneficiaries should take precautions to avoid any personal profit at the expense of the scheme.

- Do not use the prestige or influence of their position for private gain or advantage.

- Avoid any employment or contractual relationship with, or any interest in, firms that provide services to the pension scheme.

- Are not involved in any retention or termination decisions of such firms or otherwise vote on matters related to the trustees' firms.

- Refuse any gift or benefit that could reasonably be expected to affect their independence, objectivity, or loyalty.

- Do not receive or accept, directly or indirectly, any gift, service, favor, entertainment, or any other thing of value from anyone currently engaged by or seeking business from the pension scheme if it could reasonably be expected to influence a decision or be considered a reward. The governing body should establish a written policy limiting the acceptance of gifts and entertainment in a variety of contexts.

- Refuse to accept gifts or entertainment of more than a minimal value from service providers, consultants, potential investment targets, or other business partners. Pension scheme governing bodies should define what the minimum value is and should consult applicable regulations, which may help establish limits as well. The governing body should also create a reporting mechanism for disclosure of gifts and consider creating limits (e.g., amount per time period, per vendor) for accepting gifts and prohibit the acceptance of any cash gifts.

To the extent conflicts may not be avoided, effective trustees recognize and take appropriate measures to deal with and manage the conflict, such as

- Disclosing all real or perceived conflicts of interests.

- Abstaining from a vote or excluding themselves from any deliberations in which they are in direct conflict.

- Ensuring that the pension scheme has procedures in place to manage and disclose any such conflicts. Policies should be appropriate to the circumstances and level of control that the trustees have over trading decisions of the fund.

- Documenting and disclosing to the pension scheme the acceptance of any gift or entertainment.

The overriding principle is that trustees should act in the best interests of the participants of the pension scheme and disclose any conflicts of interest.

The personal and business relationships that are built among the trustees or between trustees and outside experts, such as **investment managers**, are an intangible asset to be leveraged for the benefit of the scheme. The scheme should adopt policies to prohibit former trustees from using information gained about the scheme or relationships with incumbent trustees, investment managers, or other experts for personal benefit.

5. Abide by all applicable laws, rules, and regulations, including the terms of the scheme documents.

The pension scheme governing body, having been vested with the power to manage and administer the pension scheme, is responsible for ensuring adherence to the terms of the arrangement, statutes, bylaws, contract, trust instrument, or other associated governing documents. As a general matter, pension schemes operate in a complex, varied, and rapidly changing regulatory environment. Generally, trustees are not expected to master the nuances of technical, complex law or become experts in compliance with pension regulation.

Effective trustees

- Consult with professional advisers retained by the scheme to provide technical expertise on applicable law and regulation.

- Regularly investigate and ensure that the pension scheme has adopted and updated compliance policies and procedures designed to maintain compliance with laws and regulations that govern the pension scheme.

- Report any suspected illegal, unethical, or financial irregularities to the appropriate parties, including the scheme's internal auditor.

Policies and procedures are critical tools to ensure that pension schemes meet their legal and ethical requirements. Specific policies and procedures of the pension scheme supplement the fundamental principle-based ethical concepts embodied in this code. Documented compliance procedures will assist trustees in fulfilling the responsibilities enumerated in this code.

6. Deal fairly, objectively, and impartially with all participants and beneficiaries.

To maintain the trust that beneficiaries of the pension scheme place in them, trustees deal with all scheme participants and beneficiaries in a fair and objective manner. Effective trustees do not give preferential treatment to beneficiaries within a particular class of members or otherwise favor one class over the others. Many schemes have different types of participants: **active members** who are making contributions and accruing benefits, deferred members who have left employment but have not transferred their assets and will draw future benefits when reaching retirement age, and **retirees**, including spouses of deceased members, who are currently drawing retirement benefits. Effective trustees balance the interests of all types of members, treating each category of member fairly.

7. Take actions that are consistent with the established mission of the scheme and the policies that support that mission.

Effective trustees develop and implement comprehensive written investment policies that set forth the mission, beliefs, and strategic investment plans that guide the investment decisions of the scheme (the "policies").

Trustees

- Draft written policies that include a discussion of risk tolerances, return objectives, liquidity requirements, liabilities, tax considerations, and any legal, regulatory, or other unique circumstances.

- Review and approve the scheme's investment policies as necessary, but at least annually, to ensure that the policies remain current.

- Only take investment actions that are consistent with the stated objectives and constraints of these established scheme policies.
- Consider the suitability of investments given the needs of the pension scheme, its future (or projected) liabilities, risk tolerance, and diversification goals.
- Select investment options within the context of the stated mandates or strategies and appropriate asset allocation.
- Establish policy frameworks within which to allocate risk for asset mix policy risk and active risk as well as frameworks within which to monitor performance of the asset mix policies and the risk of the overall pension fund.
- Work to achieve the proper investment blend to reflect the sometimes competing interests among the different classes of scheme members while focusing on long-term stability and growth.
- Carry out the terms of the scheme while abiding by any supplemental legal or regulatory requirements.

8. Review on a regular basis the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers, such as investment managers, consultants, and actuaries.

Effective trustees have the knowledge and understanding to critically review and verify the performance of the scheme's investment managers.

Trustees

- Develop disciplined decision rules for hiring, firing, and retaining investment managers that foster a long-term investment focus and are consistent with the scheme's investment policy statement. Hiring and firing decisions should be made by considering well- reasoned criteria that may include performance, organizational or operational strength, personnel quality, and other considerations.
- Ensure that the investment entity managing scheme assets employs qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions.
- Ensure that investment managers and consultants retained by the scheme adopt and comply with adequate compliance and professional standards.
- Ensure that the pension scheme has in place proper monitoring and control procedures for investment managers.
- Review investment manager performance assessments relative to the scheme's investment policy statement on a regular basis, generally quarterly but at least annually.

Trustees may delegate the selection and monitoring of investment managers to an investment committee or professional staff as long as the trustees maintain essential oversight and policy-setting responsibilities.

9. Maintain confidentiality of scheme, participant, and beneficiary information.

Effective trustees hold strictly confidential all information communicated to them in the context of their duty to the scheme, and they take all reasonable measures to preserve this confidentiality. This discretion applies to information related to individual scheme participants and beneficiaries as well as any information that may affect the scheme's competitive ability (e.g., detailed security transactions, investment holdings, private equity transactions, and merger and acquisition information). Effective trustees ensure that the scheme has in place a privacy policy that addresses how confidential pension scheme information will be collected, used, stored, and protected and should ensure that this policy extends to external agents and delegates.

10. Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.

Full and fair disclosure of relevant information is a fundamental ethical principle of capital markets and the investment services industry. Developing and maintaining clear, timely, and thorough communication practices is critical to providing high-quality financial services to scheme participants and beneficiaries.

Trustees have a responsibility to

- Ensure that the information they provide to scheme participants and beneficiaries is accurate, pertinent, and complete.
- Not misrepresent any aspect of their services or activities in any communications, including oral representations, electronic communications, or written materials (whether publicly disseminated or not).

Communication with participants and beneficiaries is generally provided on a regular timetable and by the pension scheme, not by individual trustees. Nevertheless, effective trustees work to ensure that all communications with scheme participants and beneficiaries are timely, relevant, complete, and accurate. If the pension scheme is considering significant changes, such as mandating a later retirement age, lowering the percentage of future benefits, or closing the scheme to new members, trustees will communicate this information well in advance to allow affected parties the opportunity to provide input. Among other disclosures, trustees have a duty to present performance information that is a fair representation of the scheme's investment record and that includes all relevant factors. Trustees have a responsibility to comply with the scheme's disclosure policies by submitting any requested information in a timely manner. To be effective, disclosures of information must be made in plain language and in a manner designed to effectively communicate the information.

Appendix A
Definitions

Active member. See **Participants.**

Beneficiaries. Those persons who are no longer making contributions to the pension scheme but who are receiving benefits.

Deferred member or **Beneficiary.** Those persons who are eligible for benefits in the future but who are no longer making contributions.

External consultant. An individual or entity outside the pension plan retained to provide professional services to the plan, including assisting the plan in selecting investment managers.

Governing body. The group of persons or legal entity responsible for managing and safeguarding the assets of the pension scheme.

Investment manager. An individual or entity retained by the pension scheme to invest the assets of the plan.

Participants. Those persons who are participating in the pension scheme by making contributions but who are not yet receiving benefits.

Pension plan or **Pension scheme.** An arrangement whereby a public or private employer, such as a corporation, labor union, or government agency, provides income through deferred compensation to its employees after retirement.

Plan sponsor. The entity that establishes the pension scheme and employs the members of the scheme.

Retirees. Those persons who are receiving pension benefits from the scheme.

Trustee. An individual who serves on the governing body of a pension plan, scheme, or fund.

CFA Institute Centre for Financial Market Integrity

The *Code of Conduct for Members of a Pension Scheme Governing Body* (the code) is a joint effort to develop and promote a code of professional conduct for individuals who sit on the governing bodies of pension funds. The CFA Institute Centre for Financial Market Integrity invited representatives from a number of industry organizations to participate in a working group that guided the creation of the initial draft of the code. We are grateful to the following groups who contributed to the working group's efforts: the Council of Institutional Investors (United States), the National Association of Pension Funds (United Kingdom), the Dutch Association of Industry-wide Pension Funds, the Swiss Pension Funds Association, the Hong Kong Retirement Schemes Association, and the Organisation for Economic Co-operation and Development. We are also thankful for the efforts of individuals and organizations that reviewed the document and sent in their contributions during the public comment period.

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