

Options for Legal Form, Governance and Supervision: Estonian case

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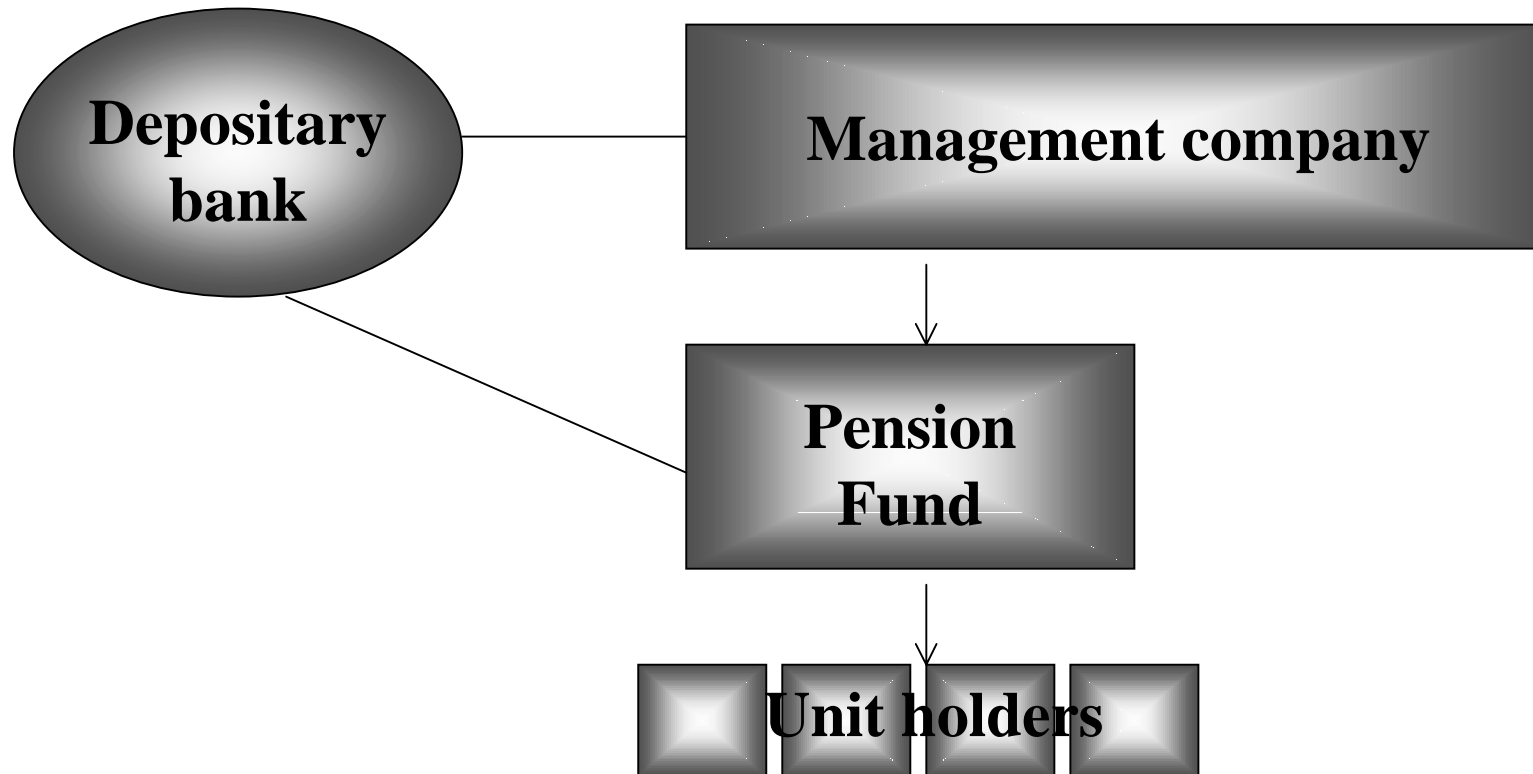
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Room Document 65

Pension Fund

- Not legal entity - special type of investment fund
- Pool of assets (fund)
 - in joint ownership of unitholders
 - managed by management company
 - kept by custodian - depository bank
- Collective (not individual) investment scheme

Pension Fund Family



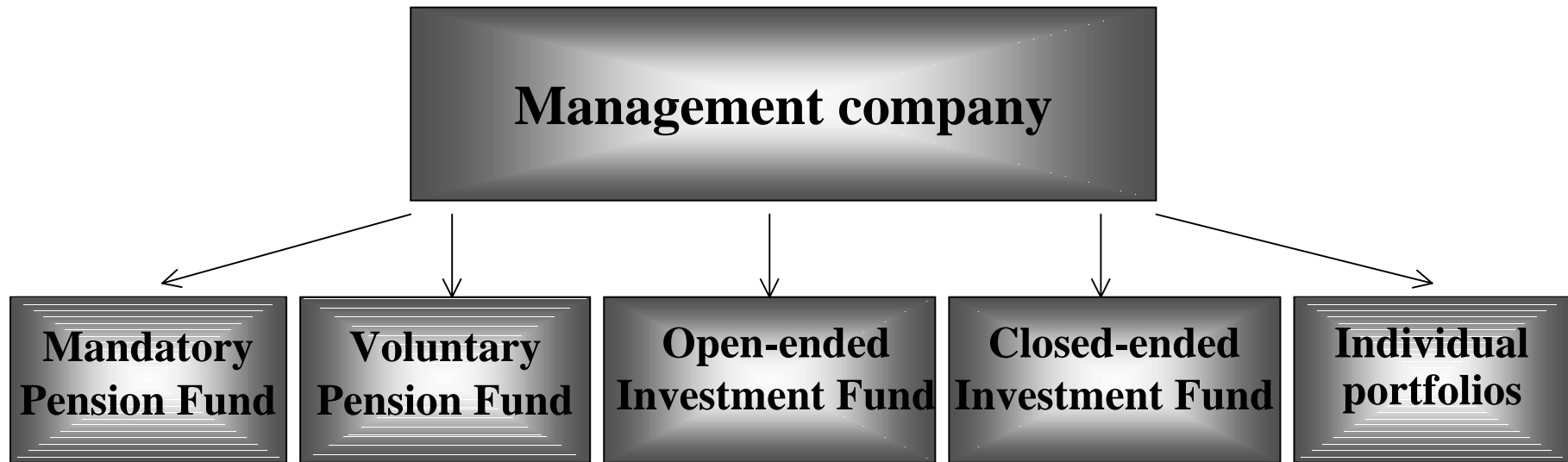
Protection of unitholders

- Who and how is representing unitholders
 - no direct impact to management company
 - withdrawal (voting with “legs”) restricted
- Role of depository (double checking)
- !! FSA should represent unitholders
- Guarantee schemes

Unitholder's choices

- different management companies
- different types of pension fund
 - fixed instrument pension fund
 - equity pension fund (up to 50 %)
- Switching (once in a year, all units together, minimum amount, redemption fee ceiling - 1 %)
- Start to collect into new fund (each year)

Management Company Activities



Management Company (1)

- Capital requirements
 - II pillar funds - 45 MEEK (30 MEEK)
 - III pillar funds - 12 MEEK
- Equity requirement - 2 (1) of managed funds
- Compulsory participation in pension fund
 - minimum 1 % (3 years - 2 %) of units
 - FSA can require to increase participation
 - FSA permit for withdrawal

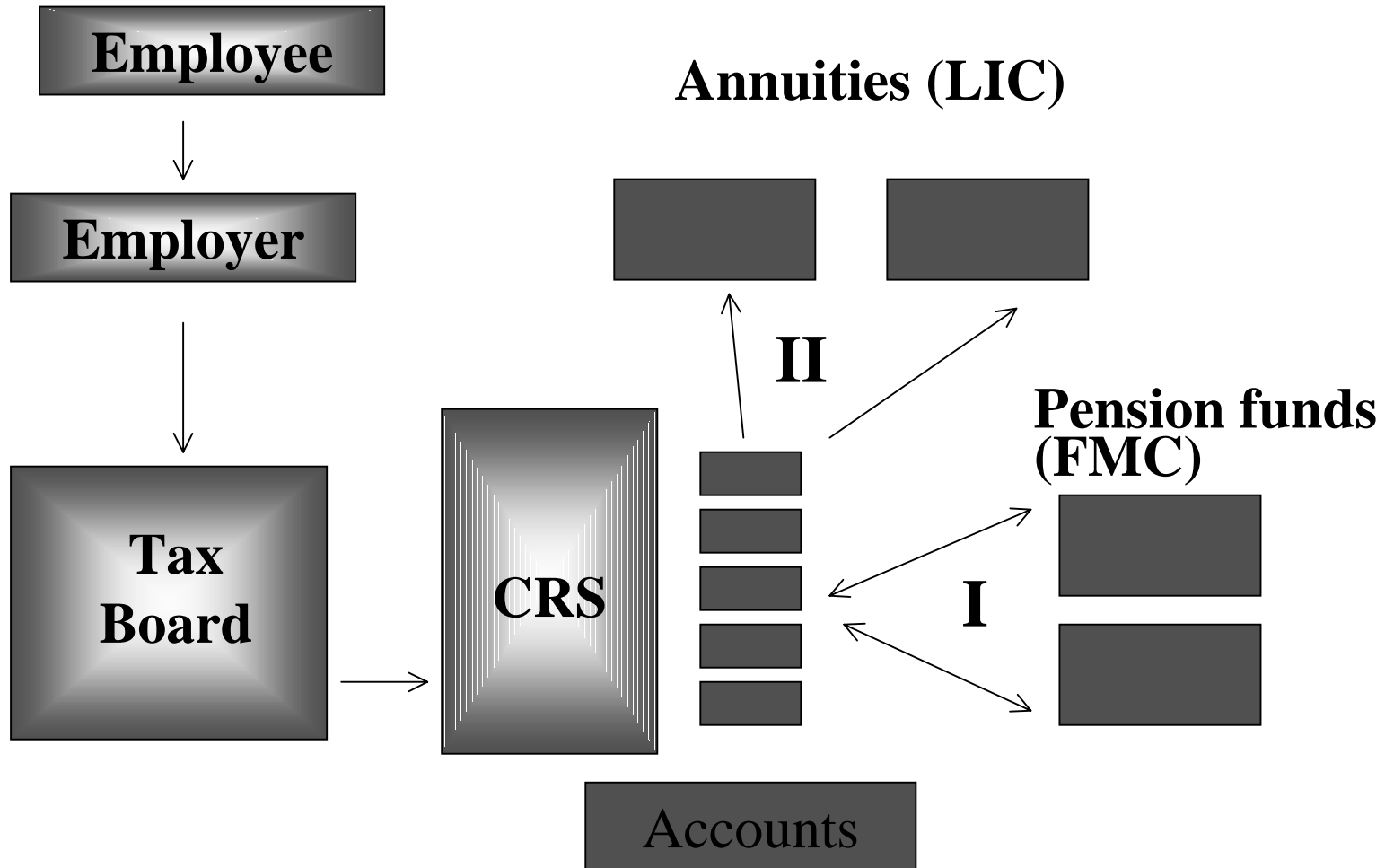
Management Company (2)

- Joint-stock company (Council - Board)
- Major shareholders (1/10, 1/3, 1/2, 2/3)
 - FSA permit required for acquisitions
- Management
 - FSA right to require withdrawal
- Qualified pension fund manager
 - FSA permit required

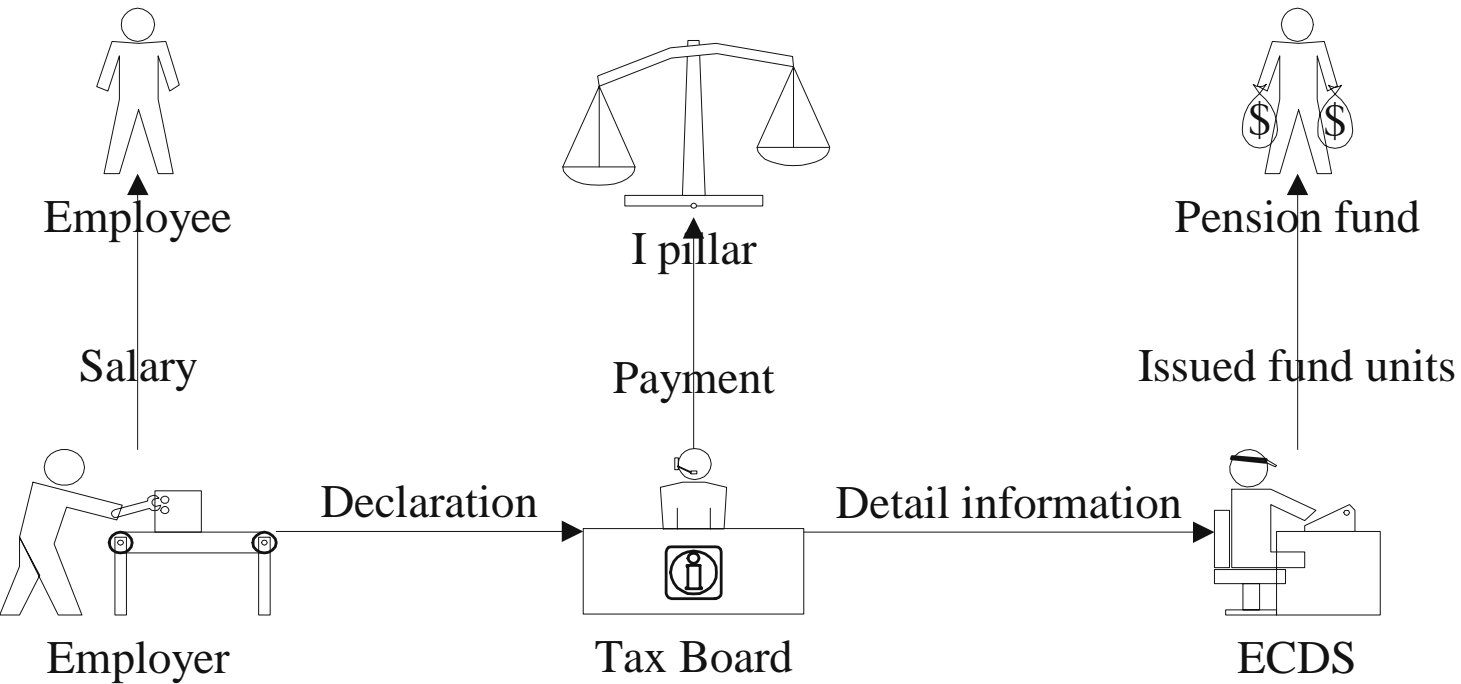
Depository Bank

- Credit institution registered in Estonia
 - no separate license
 - accountholder of Central Register of Securities (IIpillar)
- Independent from management company
 - legal separation - yes
 - cannot be the members of the same group - can NB !
 - personal independence - some restrictions (1/4 of SB)
- Depository agreement with MC

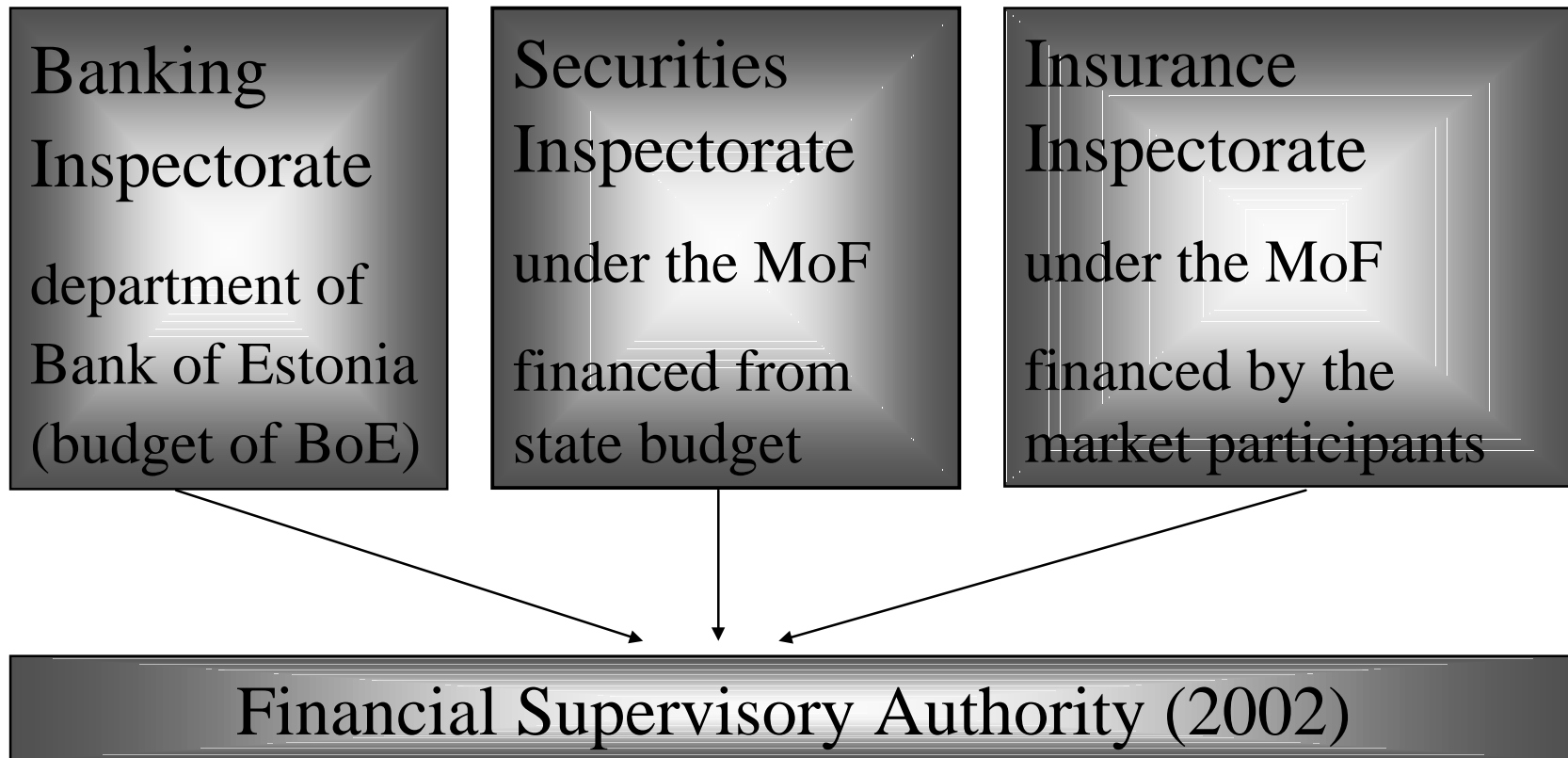
Overall Logistics



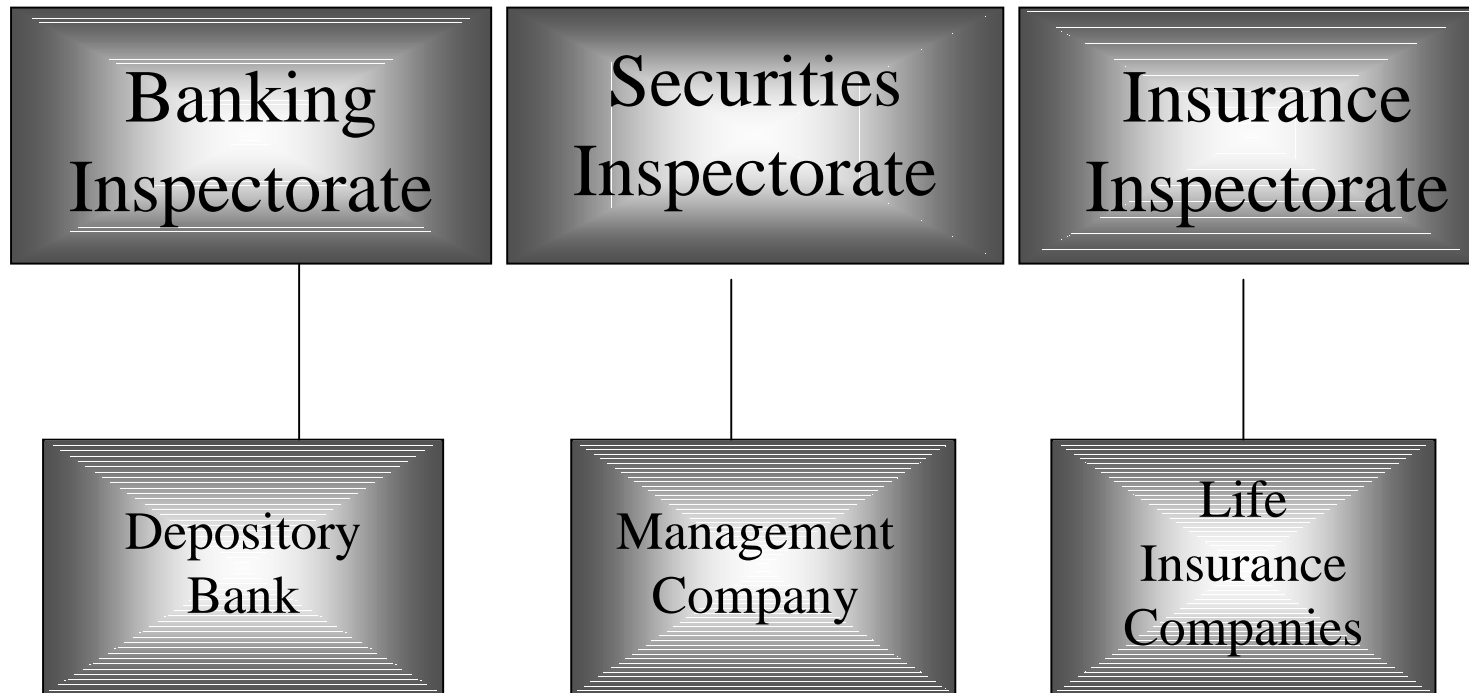
Collections



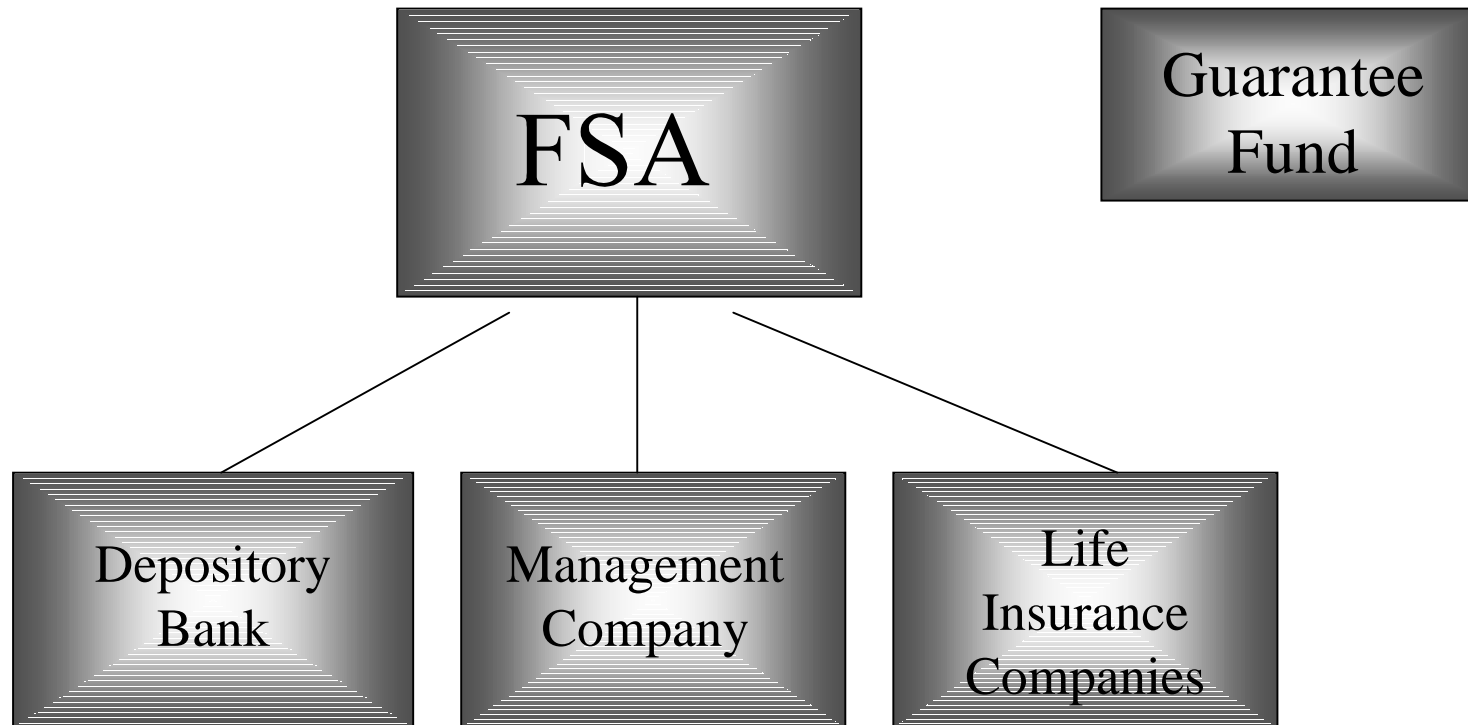
Financial Supervision



Supervision (before 2002)



Supervision (after 2002)



Financial Supervisory Authority (1)

- April, 2001 - Act was adopted by the Parliament
- June, 2001 - Act in force
- June, 2001 - Council of FSA appointed
- July , 2001 - Temporary Management Board
- January, 2002 - EFSA started to operate

Financial Supervisory Authority (2)

- Independent institution at the Bank of Estonia
- Two level management
 - Supervisory Council (2+2+2)
 - *6 members*: Minister of Finance, President of the Bank of Estonia, 2 - by Government and 2 - by the Bank of Estonia
 - *term of office* is 3 years
 - strategy, members of the Management Board, budget, rates of the supervisory fees, annual report
 - Board of Directors
 - *5 members*, including the Chairman
 - *term of office* for the members 3 years, for the Chairman 4 years
 - *all* supervisory decisions, etc.

Financial Supervisory Authority Act (3)

- Rights of authorization (licensing)
- Supervision of all market participants
 - credit institutions (+group)
 - insurance companies + insurance brokers
 - management companies (investment & pension funds)
 - investment firms
 - regulated securities markets
 - public offers (issuers)
 - Estonian Central Register of Securities
 - clearing/settlement systems
- Guidelines (no regulatory power)

Financial Supervisory Authority Act (4)

- Budget for 2002 - 51 million EEK
- 65 persons employed in average
- 3 divisions - 8 departments
- Financed by market participants
 - fixed fee (1 % of statutory capital)
 - variable fee (certain % of assets)
 - up-front financing
 - transitional provisions(partly by BoE 1/3)