FIRST CONFERENCE ON PENSION REGULATION AND SUPERVISION IN LATIN AMERICA

San José, Costa Rica, 10th-11th July 2003

SUMMARY RECORD OF THE MEETING
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I. Introduction

1. The Conference was held in San José, Costa Rica on 10th-11th July in co-operation with the Superintendence of Pensions of Costa Rica (SUPEN) and the International Association of Pension Funds Supervisory Organisms (AIOS). Mr. Ambrogio Rinaldi, Chairman of the OECD Working Party on Private Pensions, moderated this conference.

2. This Conference was attended by around 70 participants, who were from 7 member countries (Italy, Spain, United States, Canada, Hungary, Ireland and Mexico), 10 non-member countries (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Nicaragua, Peru and Uruguay) and 3 international organisations (World Bank, Inter-American Development Bank and International Labour Organization).

3. The objective of this conference was to create a forum for relevant officials and experts to exchange information, to promote high-level policy dialogue on private pensions between Latin American and the OECD member countries, and to learn from one another's experiences in the field of private pensions. To this end, the conference focused on major regulatory and supervisory issues relevant to the private pension systems in Latin America, particularly AIOS members, and in the OECD member countries. The conference had six major topics:

   ● Regulation of Pension Funds in the OECD and Latin American countries;
   ● Structures of Supervision for Pension Funds;
   ● Supervisory Methods: Licensing / ongoing and ex post supervision;
   ● Supervisory Techniques: Risk Based Supervision;
   ● Supervision of Funding in Defined Benefit Plans; and
   ● Avoiding Conflicts of Interests

4. The room documents and materials regarding this conference are posted on the website (http://www.oecd.org/).

II. Regulation of Pension Funds in OECD and Latin American countries

5. This session mainly discussed the major differences of regulatory frameworks for private pensions in the OECD members and those in the Latin American countries. There were active discussions of the role of OECD and AIOS principles and guidelines for private pension systems, for occupational and personal plans, respectively.

6. There are three major differences on the private pension regulation: 1) voluntary or mandatory nature; 2) defined benefit (DB) or defined contribution (DC) schemes; and 3) occupational pension plans provided
by employers or personal pension plans provided by financial institutions. In general, in OECD countries DB plans are still popular for voluntary occupational pension plans, while most Latin American countries have enforced DC plans with compulsory nature. There is, however, a growing tendency towards DC plans in many OECD countries.

7. DB plans typically provide participants with set benefits calculated according to the years of work and salary averages, while in the DC plans the benefits are calculated based on life tables and on the accumulation of the contributions and investment returns in individual accounts. As DB plans need the adequate level of funds to finance accrued liabilities, regulation based on solvency risk management is important for those plans. On the other hand, as the benefits in DC plans come from investment of participants’ accumulated account balance, regulation based on investment risk management is crucial in those plans.

8. Another concern is the difference between occupational pension plans and personal pension plans. Occupational pension plans, which can be either DB or DC plans, are part of a firm’s total remuneration package and thus not accessible to the general public. By contrary, personal pension plans, which are mostly DC plans, are savings vehicle for the general public sold mainly by insurance companies, which is likely to be insurance products. Therefore, regulation in latter case needs to attach importance to participants’ receiving all the pertinent information of products in order to allow them to do their optimum choice.

9. From supervisory approach, there are two regulatory models: 1) proactive model; and 2) reactive model. The proactive model backed by rigorous ex-ante licensing activities and ongoing on site and off site monitoring is associated with systems based on a small number of relatively homogeneous pension funds. This model is predominant in the Latin American countries. On the other hand, the reactive model backed by remedial and punitive problem resolution is typical in the occupational pension plans of the OECD countries, which comes into effect only when the problems are reported. It was mentioned that the regulation of personal pension plans in the OECD countries would tend to follow the proactive approach.

10. The size and structure of the private pension systems in the Latin American countries are quite small as compared to those in the OECD countries. That is to say, Latin American system involves problems such as the disparity between the number of affiliates and that of contributors, the small size of accumulated assets (except for Chile), the low level of voluntary savings, and the small number of providers. Private pension systems in many Latin American countries are mandatory and those in some countries are the sole provider of social security benefits. Furthermore, taxation, which is basic incentive to expand the scale in the OECD countries, is not a prime factor to raise the size of private pensions in Latin America because of the mandatory nature of systems. Those systems may cause the excessive market concentration and anti-competitive pricing policies. Hereby, big challenges are how to cover people in informal sectors for the pension systems and to establish safe and effective system for all the public.

11. Many Latin American private pension schemes provide minimum return and state guarantees but there is no remedy for mismanagement and fraud. Independent custody and asset segregation will be important to mitigate such problems. Also there is an indication that stiff fees and commission charges for private pensions hamper sound competition in Latin America. In addition, inefficient annuities market arises from the mandatory nature of Latin America system. Fostering annuities market will be necessary to promote long-term security. How to organise this market is one of the big challenges in Latin America.

12. There is an issue whether investment regulation should be based on prudent man rules or quantitative limits in portfolio allocation. Brazil is gradually moving toward the latter approach like the United States and the United Kingdom. Quantitative limits approach basically depends on the level of development of
financial markets. It was pointed out that the Latin American countries should more focus on prudential approach because it helps to optimise the portfolio allocation.

13. The Mexican case was introduced as an example of private pension system in Latin America. In Mexico, the National Commission for the Retirement Savings System (CONSSAR), which is under the Ministry of Finance, is a regulator and supervisor of private pensions. Under its regulation and supervision, the Retirement Fund Administrators (AFOREs) operate open mandatory private pension schemes through Investment Funds Specialized in Retirement Savings (SIEFOREs) funded in individual accounts. Mexican systems are all DC plans and involve the problem that the pension schemes do not cover all workers because membership is obligatory to enjoy the benefits.

14. To protect workers’ right, avoid investment risks and establish safety and fair systems, the importance of corporate governance, as international principles, was stressed. That is, the corporate governance of the pension system is quite important to promote the self-regulation, efficiency and security in the asset management.

III. Structures of Supervision for Pension Funds

15. This session mainly discussed the institutional structures of the private pension supervision. Some OECD and Latin American countries have integrated their financial sector supervisory agencies while some countries have still adopted specialised model for the supervision of pensions. The advantages and problems of each model were examined.

16. The institutional structure of private pension supervision is related to the characteristics of private pensions (e.g. mandatory, voluntary, occupational, personal, DC or DB plans) and regulatory and supervisory approach (e.g. qualitative, prudential, quantitative, self-supervision, reactive or proactive model). Taking account of these factors, supervisory structures in the OECD countries are mainly classified into three models: 1) integrated model (banks, securities, insurance companies and pension funds) adopted, for example, by Australia and Canada; 2) partially integrated model (insurance companies and pension funds) adopted by Netherlands and Spain; and 3) specialised model (pension funds) adopted by the United Kingdom and the United States. Out of these countries, Australia, Canada, Netherlands and the United Kingdom hold formally independent supervisory agencies respectively.

17. In terms of the responsibilities of regulation and supervision of private pensions, there are basically three types: 1) Ministries are responsible for both regulation and supervision (e.g. Japan and Spain); 2) independent agencies are the main regulators and supervisors (e.g. Canada and Ireland); and 3) Ministries are the main regulators and independent agencies are the main supervisors (e.g. Australia and the United Kingdom). Out of these countries, 1) Parliament and pension industry supervise the supervisors in Australia, 2) Ministries do so in Japan, Spain, Canada and Ireland and 3) Prime Minister does so in the United Kingdom. It was pointed out that good practices on supervision of private pensions should be based on well-designed framework (mission, objectives and responsibilities), information sharing, operational independence, power of staffing and disclosure policies.

18. There is an active debate on the pros and cons of integrated supervision models, which is related to three main objectives of financial regulation from viewpoints of efficacy and efficiency: 1) consumer protection; 2) systemic stability; and 3) financial system efficiency. In the first point, considering the prudential aspects, whether or not regulation and supervision are designed to protect consumers who are not in the position to effectively judge the soundness of financial firms is a key issue. In the second point, preserving the stability of the financial system is also main objective of financial authorities, considering
market sentiments. The third point arises from the efficient operation of the system from a viewpoint of cost.

19. The main arguments against integration are the issues of 1) moral hazard, 2) regulatory capture, 3) Christmas tree effect, and 4) bureaucratic leviathan. Moral hazard problems involving excessive risk taking behaviour by the general public and financial institutions will crucially affect the effectiveness and efficiency of financial regulation and supervision, which can jeopardize the consumer protection and the systemic stability under the integrated approach. Regulatory capture problems arise from the assumption that existent regulators will not leave off their authorities if the competitive environment exists among them, which will impede the integrated approach as well as consumer protection. Christmas tree effect problems are the issues that additionally new objectives created by the introduction of new integrated authority may raise conflicts with original objectives of financial regulation and supervision. Bureaucratic leviathan problems involve the structural issues that a single regulator may neglect the duties of predictability, transparency, and accountability of its actions.

20. On the other hand, the main arguments for integration are 1) economies of scale and scope, 2) prevalence of financial conglomerates, 3) competitive neutrality, and 4) transparency and accountability. In the first point, there is an advantage that a single regulator will bring cost efficiency of its regulatory and supervisory action. The second point is the idea that a single regulator will effectively regulate and supervise the activities of financial conglomerates. The third point is based on the efficient regulation and supervision to be conducted by integrated regulator, considering the blurring of boundaries between financial products and services. Final point is that the integrated approach will provide a single regulator with a clear set of responsibilities such as transparency and accountability of its operations. Thus, there are several arguments of integrated supervision models.

21. Supervisory system in the United States is quite different from that in Latin America. The U.S. supervisory approach is based on the voluntary employment based system, which gives great degree of flexibility to the type of pension plans. Strong incentives to expand private pensions come from specific tax qualification rules. The U.S. system has adopted fiduciary (prudential) standard, i.e. trust based entity, which is very diverse system. In fact, the old DB plans have been rapidly replaced by DC plans in the last ten years. It can be said that the U.S. system is flexible to accommodate the changing preference of workers and employers. Also as the regulation has minimal entry barriers (i.e. anyone creates the pension funds and even the licence is not required), the United States hold the large number of pension funds (700,000 funds in 2001).

22. The U.S. supervisory style is characterised by reactive, remedial, decentralised approach because of the large number of funds. The National Policy, Oversight and Evaluation Unit supervises the private pensions in the United States but there is no legal authority for punitive or compensatory sanctions (i.e. negotiation based settlements). The U.S. strategies are based on reliance on deterrence, focused agenda through case selection, and voluntary compliance and assistance.

IV. Supervisory Methods: Licensing / ongoing and ex post supervision

23. This session discussed the methods and techniques used by supervisors to conduct their duties, focusing on licensing or registration process, off site and on site supervision and intervention on the pension funds. The discussions were addressed to increasing the mutual knowledge and identifying good international practises and technologies in the field that can be adapted to improve the national schemes.

24. Initially, supervisory methods in Costa Rica were introduced. Costa Rica has multi-pillar pension system: 1) first pillar: public pension regime (contribution: 7.5% of salary); 2) second pillar: private
pension regime (contribution: 4.25% of salary); 3) third pillar: voluntary regime; and 4) fourth pillar: government full-cover regime. Superintendence of Pensions (SUPEN) regulates and supervises all pension regimes including mandatory private pensions which are DC plans. SUPEN has conducted the risk based supervision through minimum standards of administration (minimum capital requirements annually adjusted in the consumer price index), attaching importance to the information technology systems (in order to evaluate the performance of operational risk). Costa Rican system forces pension operators to establish an investment committee and a risk committee.

25. Supervisory activities are mainly divided into three phases: 1) prior authorization; 2) on-going supervision; and 3) compliance enforcement. There are several approaches country by country. To optimise the supervisory methods in respective countries, apt information is indispensable. There was an opinion that information about supervisory methods should be more exchanged through international network of pension regulation and supervision such as OECD and INPRS.

26. Hungarian pension system consist of four pillars: 1) state managed pay-as-you-go system; 2) private managed DC plans (mandatory for new employees and voluntary for others); 3) private savings DC plans (voluntary); and 4) social services. The pension fund market in Hungary tends to be concentrated on the mandatory schemes (2.2 million people joined the mandatory pension funds (55% of active population)). Hungarian Financial Supervisory Authority (HFSA) has been an integrated regulator and supervisor since 2000, which activities are basically proactive. Investigation (on-site or/and off site) has been conducted every second year. The responsibilities of work are separated; i.e. inspectors conduct 3-15 days on-site inspection and supervisors partly do off-site inspection. Main supervisory tools are publicity of resolutions, consultations and preventive meetings with pension fund managers. The number of withdrawing licence has been decreasing recently (30 in 2001 to 5 in 2002). Supervisory methods in Hungary tend to shift from on-site to off-site because on-site inspection is expensive. It was mentioned that establishing supervisory guidelines would be useful for effective supervision and that preventive meetings would be necessary to avoid fines.

V. Supervisory Techniques: Risk Based Supervision

27. This session focused on the use of risk monitoring techniques to supervise Latin American pension funds and plans. The prudent man rule and its possible application in Latin America were discussed in the context of supervisory systems that aim to ensure an adequate diversification of investments and increasingly greater choice of investment by individuals.

28. Ireland has developed risk based supervision approach. Irish pension system comprises first pillar state pensions (contribution: 31.65% of average industrial wage, which will be 34% by 2007) and second pillar private pensions (covering 50% of workforce, which plans to cover 70% over the next 5 years). Its pension schemes currently tend to shift from DB plans to DC plans (1,901 DB plans and 105,863 DC plans in 2003). As a new form of personal pension plan, Personal Retirement Savings Accounts (PRSAs) was introduced in 2003, which is low cost form of investment accounts. Irish regulation in occupational pension schemes is underpinned by Pension Acts and supervised by Pensions Board, which is trust based system (based on prudent man rule). Pensions Board carries out its regulatory role by scheme registration (obligatory to trustees), funding standard of DB schemes, random examinations of schemes, investigations, “whistle-blowing” of requirements and legal proceedings (penalties). Pensions Board also promotes the security of occupational pensions through monitoring up-to-date information (“disclosure compliance strategy” which is published on Board’s web site) and producing guidance notes for trustees and pension practitioners. Investigations are basically initiated following complaints and enquiries from scheme members, trustees, trade unions, etc (reactive approach). There is no on-site investigation so far. As other
regulatory players, there are the Irish Financial Services Regulatory Authority (IFRSA) and the Pension Ombudsman (legally independent office).

29. Spain also adopts a risk-based supervisory approach. Spanish model is carried out by means of individual monitoring of each pension fund (e.g. monitor structures of group and conglomerates, their guidelines, human resources and fluidity of internal information) and the individual risk management review (e.g. check the suitability of internal control measures). Its final goals are to secure stability of supervision, to avoid uncertainty of pension funds, to improve their quality and solvency and to protect participants.

30. CONSAR in Mexico has currently adopted a new investment regime of pension funds to obtain higher returns and better pensions. Its strategy is based on four lines: 1) increase investment opportunities for issuers; 2) regulate credit risks assessing the credit qualities (not types of issuers); 3) establish effective market risk limits; and 4) allow the use of simple derivatives to make portfolio management flexible. To this end, three main issues are required: 1) skills and experience of fund managers to achieve optimal asset management; 2) adequate infrastructure of risk management in AFOREs; and 3) development of local financial markets. Risk management has been conducted in two levels: 1) corporate level through the Risk Committee and the specialised Unit and 2) administration level through systems to measure SIEFORE risks and information system about risks and returns. CONSAR has also published the risk-adjusted index (IVR). In order to effectively manage market risks, a value at risk (VaR) limit based supervision has been introduced in Mexico, which is indicated as percentage of total SIEFORE assets. The new investment regime based on VaR limit regulation is expected to increase returns on investments.

VI. Supervision of Funding in Defined Benefit (DB) Plans

31. Privately managed DB plans are still important in some Latin American countries such as Brazil and Costa Rica. Public sector employees have also retained such schemes in some countries, though they are not always funded. This session focused on funding and actuarial methods, their consistency with accounting principles, and the application of minimum and maximum funding requirements.

32. Funding regulation takes a key role of securing sound pension systems, especially in DB plans which benefits are based on accumulated individual accounts. Tax authorities regulate funding to prevent abuse of tax-favoured status and pension regulators do so to secure participants’ benefits through sound funding (e.g. setting aside assets on a systematic basis). There are three funding methods: 1) customary sound funding; 2) minimum funding requirements; and 3) maximum funding constraints. Customary funding practices are conducted based on actuarial funding method (accrued and prospective benefits), actuarial assumptions (realistic assumptions), asset valuation (fair market value) and adjustments for funding shortfalls and excesses. Minimum funding requirements are normal costs and amortizations of unfunded liabilities and funding shortfalls to be paid by plan sponsor according to laws. North American countries and Brazil have adopted this approach. Recent trend is the adoption of the asset/liability approach in which plan-specific tests are necessary to determine adequacy of funding. Regarding the maximum funding constraints method there are risks of potential abuse by plan sponsors (eroding participants’ benefits). As big challenges, it was pointed out that regulators should continue to discharge their legislative responsibilities while to encourage sound, controllable and non-volatile funding and to avoid costly distortions of the fund’s investment policy.

33. Brazilian pension system basically consists of three pillars: 1) basic general regime for private sector workers; 2) multiple special regimes for civil servants and militaries; and 3) voluntary complementary funded personal or occupational regime. The third one is the private pension system established by Law 6435 in 1977 as a complementary purpose of social security system, which has long history as compared to
other Latin American countries. Most of Brazilian pension plans used to be DB plans, but the trend seems to be slightly changed into DC plans (2,000 companies operate 380 DB plans, 577 DC plans and 64 mix plans (DB and DC)). It was stressed that the administrative policy of pension funds is based on “less regulation but more supervision”. The supervisory style is indirect supervision based on off site monitoring. Brazil currently holds the problem that public pension expenditure heavily exceeds the contribution backed by DB plans. Pension fund reforms are on-going in Brazil, focusing occupational pension DB plans.

34. Costa Rica has adopted DB plans in its public pension system, which is administrated by the Social Security Institution of Costa Rica (CSSI) and pay-as-you-go system for public servants. Public systems involve general risks such as political risks, poor financial performance and fraud (under declaration), which spoils sound funding. In order to improve the performance and sustainability of public system, risk-based supervision of administrative performance and investments is indispensable. It was stressed that regulatory and supervisory approach should not make difference between private and public pensions (e.g., in daily supervision of funds and contributions, investment policies and accountability of financial performance).

VII. Avoiding Conflicts of Interests

35. This session focused on the treatment of conflict of interests that arise in the provision of pension services (e.g. sales, asset management, etc.) in Latin American countries. The main objective was to assess different regulations, supervisory techniques and internal management tools used to prevent conflicts of interest from undermining the integrity of pension funds. In addition to the conflicts in fund management, the conflicts of interest problems that might arise from the supervisory process itself were discussed.

36. Conflicts of interest involve high potential for abuse and will be accompanied by serious repercussions for older populations if there are financial losses, which will undermine public confidence of pension schemes. Several types of conflicts can be considered; for example, conflicts related to portability, service providers and dual roles of trustees.

37. Conflicts related to portability, first example, arise from delay in transfer of plan assets when a member changes to a new plan, which occurs as a delay in paying benefits. More concretely, without set valuation dates, funds can be arbitrarily decide on what day to value transferred assets and then remaining members receive benefits if gains arising from such delay are passed on to plan, which involve the problem regarding inaccurate asset accounting. To prevent this conflict, regulation should set strict time limits on transfers of assets and benefits payments and require disclosure in financial notes regarding the plan’s practice for timing these valuations and transactions. Hungary is currently considering adding this set time limits regulation.

38. Conflicts related to service providers, second example, arise from divided loyalty between accountant and a pension company. That is, a pension company is harmed if accountant reports irregularity in pension plan and as a result accountant may lose office space inside the pension company. Accountant may make a decision based on self-interested. To avoid this conflict, regulation should prohibit service providers from having self-interested financial relations with any other entity related to the plan that engaged him/her. Hungary and Chile have this type of prohibition. According to the Chilean corporate governance standards, transactions with relevant entities must be carried out at arm’s length, but seems to be still permitted. To detect this type of conflict, it will be effective to review all service provider contracts and to prepare a complete list of all entities related to the plan from administration to investment.
39. Final example is conflicts related to dual roles of trustees. Concretely, a trustee negotiates a loan between two separate plans on whose behalf he/she serves as trustee, where the members of both plans are not identical, which is a kind of insider trading. To prevent this conflict, indispensable are 1) stringent regulations regarding who receives loans from pension assets, 2) clear regulations on which duty of loyalty receives highest priority to prevent insider trading under a conflict of laws and 3) strict standards regarding credentials of trustees. Many OECD countries such as Hungary and Poland do not permit pension plans to make any loans as investments. To detect this type of conflict, it is necessary to examine all loans from one plan to another and to determine what insider information is available to a plan official.

40. Chile has regulatory norms regarding conflict of interests arising from abuse of privileged information for investments to be carried out by pension funds and their operational advantages. According to the law (D.L.3500 (XIV)), Pension Fund Administrators (AFPs) must pay attention to interests from pension funds. AFP’s operations for own benefits are regarded as illegal. AFPs who can contact privileged information of pension funds, including their spouses, are registered according to the law and they must inform the Superintendente de AFP (SAFP) of their operations, internal controls and asset allocations (obligatory information system). Arbitrary allocation of assets and compromise of prices are prohibited by the law. Mandatory participation in shareholders’ meetings for pension funds and corporate governance standards have been adopted in Chile in order to prevent arbitrary decision based on undisclosed information.

41. The financial conglomerates in Argentina involve the potential conflicts of interests, which have considerable influence in pension funds in Latin America. In fact, financial conglomerates accounted for 56% of total assets of pension funds in Latin America in 2001. There are bank based and investors based conglomerates in Argentina. The former is a main player in Argentina. Potential conflicts of interests arise from cross selling of products within group conglomerates without appropriate information for the decision making. International organisations such as OECD, BIS, IMF and IOSCO have paid attention to the regulation and supervision of financial conglomerates. There was an opinion that the regulatory scheme would not have to prevent the conformation of financial conglomerates themselves but should establish strict and effective regimes of supervision for their activities.

VIII. Conclusion

42. This first conference was successfully concluded and appreciated by all participants. It provided a broad and open discussion about major regulatory and supervisory issues relevant to private pensions. The Secretary will positively consider future meetings as follow-ups. Currently, the AIOS and the OECD are discussing a co-operative agreement that would lead to the joint organisation of a conference on private pensions in Latin American every year, possibly back to back with the annual AIOS assembly.
Annex

FIRST CONFERENCE ON PENSION REGULATION AND SUPERVISION IN OECD AND LATIN AMERICAN COUNTRIES

San José, Costa Rica, 10-11 July 2003

- Provisional Agenda -

Wednesday, 9 July

20:00 - WELCOME DINNER (RECEPTION)

First Day (Thursday, 10 July)

9:00-9:40 Introductory Session: OPENING REMARKS (OECD/AIOS/SUPEN-COSTA RICA)
Welcome remarks by Mr. Javier Cascante, Superintendence of Pensions of Costa Rica (SUPEN)
Introductory remarks by chairman, Mr. Ambrogio Rinaldi, COVIP-Pension Funds Supervision Commission of Italy, Mr. Guillermo Larrain, President of AIOS, and Mr. Shigehiro Shinozaki, OECD Secretariat

9:40-11:00 Session 1: REGULATION OF PENSION FUNDS IN OECD AND LATIN AMERICAN COUNTRIES

This session would highlight the main contrasts and similarities between the regulation of pension funds in OECD countries and those in Latin America. In addition, there will be a discussion of the role of international principles and standards for occupational and personal private pension schemes.

➤ Principles of corporate governance and rights of beneficiaries
➤ Prudential and quantitative regulations
➤ Comparative experience on regulatory framework in OECD and Latin America

Moderator: Mr. Francisco de Paula Gutiérrez, Costa Rica

Panellist 1 (20 minutes): Mr. Juan Yermo, OECD Secretariat
Panellist 2 (20 minutes): Mr. Flávio Marcilio Rabelo, FGV, Brazil
Panellist 3 (20 minutes): Mr. Mario Gabriel Bubedo, CONSAR, Mexico

General discussion (20 minutes)

11:00-11:20 Coffee break
11:20-12:40 Session 2: STRUCTURES OF SUPERVISION FOR PENSION FUNDS

This session will discuss the institutional organisation of the private pension supervision. Some OECD and Latin American countries have integrated their financial sector supervisory agencies. Other countries still adopting specialised model for the supervision of private pensions. The idea is to discuss the advantages and problems of each model according to the market structure and identify good practises in this area.

-Time Line-
- ➢ Integrated, partially integrated and specialised supervisory authorities models
- ➢ Supervisory authority independence: financial, institutional, operational and political
- ➢ Supervisory structure versus market structure

Moderator: **Mr. Ramiro Sacasa**, SIP, Nicaragua

Panellist 1 (20 minutes): **Mr. Vinicius Pinheiro**, OECD Secretariat
Panellist 2 (20 minutes): **Mr. Edgardo Demaestri**, IDB
Panellist 3 (20 minutes): **Mr. Richard Hinz**, World Bank

General Discussion (20 minutes)

12:40-14:30 Lunch hosted by OECD. **Mr. Diego Valero**, Defendant of the Participant.

14:30-15:50 Session 3: SUPERVISORY METHODS: LICENSING / ON GOING AND EX POST SUPERVISION

This session is oriented to exchange experiences on the methods and techniques used by supervisors to conduct their duties, focusing on licensing or registration process, off site and on site supervision and intervention on the pension funds. The discussion aims to increase the mutual knowledge and identify good international practises and technologies in the field that can be adapted to improve the national schemes.

-Time Line-
- ➢ Operational management of supervision on day-by-day basis
- ➢ Proactive and reactive techniques and strategies
- ➢ Changes in the supervisory methods that occur in response to changes in the economic conditions, legal framework, government philosophy, supervisory structure and/or market conditions
- ➢ Instruments to collect information and evaluate performance

Moderator: **Mr. Elio Sánchez**, Superintendencia de Pensiones, Perú.

Panellist 1 (20 minutes): **Mr. Javier Cascante**, SUPEN, Costa Rica
Panellist 2 (20 minutes): **Mr. Ambrogio Rinaldi**, COVIP, Italy
Panellist 3 (20 minutes): **Mr. Mihály Erdos**, PSZAF, Hungary

General Discussion (20 minutes)

15:50-16:10 Coffee break
16:10-17:30 Session 4: SUPERVISORY TECHNIQUES: RISK BASED SUPERVISION

This session would focus on the use of risk monitoring techniques for pension funds supervision. The prudent person rule and its possible application in Latin America would be discussed in the context of supervisory systems that aim to ensure an adequate diversification of investments and increasingly greater choice of investment by individuals.

➤ Financial risk management and monitoring of the pension funds portfolios

Moderator: Mr. Francisco J. Opazo Delpiano, SAFP, Chile

Panellist 1 (20 minutes): Ms. Mary Hutch, Pension Board, Ireland
Panellist 2 (20 minutes): Mr. Joaquín Melgarejo, Ministry of Economy, Spain
Panellist 3 (20 minutes): Mr. Isaac Volin, CONSAR, Mexico

General Discussion (20 minutes)

19:00- Dinner hosted by SUPEN

Second Day (Friday, 11 July)

9:00-10:20 Session 5: SUPERVISION OF FUNDING IN DB PLANS

Privately managed, defined benefit pension plans are still important in some Latin American countries, such as Brazil. Public sector employees have also retained such schemes in some countries, though they are not always funded. This session would focus on funding and actuarial methods, their consistency with accounting principles, and the application of minimum and maximum funding requirements.

➤ Analysis of funding rules in selected OECD and Latin American countries
➤ Development of guidelines
➤ Role of the supervisor in assuring adequate funding levels

Moderator: Ms. Jose Rafael Brenes, Costa Rica.

Panellist 1 (20 minutes): Mr. Colin Pugh, France
Panellist 2 (20 minutes): Mr. José Valdir Gomes, SPC, Brazil
Panellist 3 (20 minutes): Dr. Edgar Robles, SUPEN, Costa Rica

General Discussion (20 minutes)

10:20-10:40 Coffee break

10:40-12:00 Session 6: AVOIDING CONFLICTS OF INTERESTS

This session focuses on the treatment of conflict of interests that arise in the provision of pension services (sales, asset management, etc.) in OECD and Latin American countries. The main objective is to assess different regulations, supervisory techniques and internal management tools used to prevent conflicts of interest from undermining the integrity of
pension funds. In addition to conflicts present in fund management, there will be a discussion on the conflicts of interest problems that can arise in the supervisory process itself.

Moderator: Mr. Enrique Sorto, Superintendencia de Pensiones, El Salvador

Panellist 1 (20 minutes): Ms. Lainie Patterson, U.S.A.¹
Panellist 2 (20 minutes): Mr. Guillermo Larraín, AIOS
Panellist 3 (20 minutes): Mr. Carlos Weiss, SAFJP, Argentina.

General Discussion (20 minutes)

12:00-12:30 CONCLUSIONS AND CLOSING REMARKS

12:30-14:00 Lunch hosted by SUPEN

14:00 END OF THE MEETING

¹ Ms. Patterson made her presentation on the end of the first day.