Options for Legal Form, Governance and Supervision: Estonian case

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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

Depositary bank

Management company

Pension Fund

Unit holders
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

- Mandatory Pension Fund
- Voluntary Pension Fund
- Open-ended Investment Fund
- Closed-ended Investment Fund
- Individual portfolios
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

Employer → Employee → Tax Board

CRS

Annuities (LIC)

Pension funds (FMC)

Accounts
Collections

Employee → Salary

Declaration → Tax Board

Payment → I pillar

Detail information → ECDS

Pension fund → Issued fund units

ECDS

Tax Board

Employer

Employee

Salary
Financial Supervision

Banking Inspectorate
department of Bank of Estonia
(budget of BoE)

Securities Inspectorate
under the MoF
financed from state budget

Insurance Inspectorate
under the MoF
financed by the market participants

Financial Supervisory Authority (2002)
Supervision (before 2002)

- Banking Inspectorate
  - Depository Bank
- Securities Inspectorate
  - Management Company
- Insurance Inspectorate
  - Life Insurance Companies
Supervision (after 2002)

FSA

- Depository Bank
- Management Company
- Life Insurance Companies
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)