

2nd Public Pension Fund Management Conference

TRANSPARENCY AND ACCOUNTABILITY



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TRANSPARENCY & ACCOUNTABILITY

Agenda

- ✦ Background
- ✦ Relevance
- ✦ Key Components
- ✦ Good models – what they do
- ✦ Models with more to do
- ✦ Conclusion

BACKGROUND

- ✦ Greatly increased focus arising from corporate and accounting scandals, for example Enron
- ✦ New legislation and regulation affecting accounting and corporate disclosure and governance, for example, Sarbanes-Oxley Act 2002 in US and Higgs and Smith reports together with new accountancy regulation in UK
- ✦ OECD guidelines for Pension Fund Governance, EU Pensions Directive, national pension regulators and supervisors all have disclosure and accountability requirements for private pension funds
- ✦ General climate change also affects public funds

RELEVANCE

- ✦ Accountability is essential part of good governance
- ✦ Public awareness and understanding is best discipline
- ✦ Some evidence that good mechanisms to understand and communicate with plan stakeholders is a driver of organisational performance

KEY COMPONENTS

- ✦ Focus of liability on a governing body or person accountable to someone
- ✦ Good governance of governing body/person
- ✦ Effective accounts and audit requirements
- ✦ Effective custody requirements
- ✦ Public transparency and reporting to all stakeholders
- ✦ Independent oversight

KEY COMPONENTS – Focus of Liability

- ✦ Usually clear for private funds but not easy for public funds because of:
 - large number of stakeholders
 - no supervisory authority in most cases
- ✦ Important to have governing body or person with the responsibility
- ✦ Liability should be established in law and be personal
- ✦ Liability should be clear and relationship with other parties should be clear including:
 - the Government
 - the Public
- ✦ Governing body/person must be accountable to someone – ideally to Parliament

KEY COMPONENTS – Good Governance of Governing Body

This requires:

- ✦ Independence – in particular from political pressure
- ✦ Sound appointment and removal procedures
- ✦ Conflict identification and management
- ✦ Clear responsibilities and requirements
- ✦ Clear mandates and objectives

KEY COMPONENTS – Effective Accounts and Audit

Accounts

- ✦ Should be required at regular intervals
- ✦ Should be done to highest national accounting standards
- ✦ Should have prescribed contents

Audits

- ✦ Can be provided internally
- ✦ Must also be provided by external auditors who are independent
- ✦ Must be regular
- ✦ Must adhere to national auditing standards
- ✦ Should include actuarial evaluation

International Standard for Accounting and Auditing of Public Funds

- ✦ Does not exist but would be helpful

KEY COMPONENTS – Effective Custody

- ✦ Custody
- ✦ Must be provided externally
- ✦ Must be independent reputable institution providing custody services
- ✦ May include sub-custodians but must cover all relevant areas

KEY COMPONENTS – Public Transparency & Reporting

Requires

- ✦ Reports to be published at regular intervals
- ✦ Contents of reports to be prescribed
- ✦ Reporting mechanism to the entity to which governing body is accountable, preferably Parliament
- ✦ Public promulgation of reports
- ✦ Mechanism for public to seek and obtain relevant information
- ✦ Specific information to potential beneficiaries including statements of benefits

KEY COMPONENTS – Independent oversight

Includes

- ✦ External audit
- ✦ External actuarial valuations of assets and liabilities
- ✦ External verification of investment returns

Desirable

- ✦ A power for Government to commission independent examinations

GOOD MODEL – Canada Pension Plan

Good governance ? positive outcomes by defining responsibilities and accountabilities

Some key features:

- ✦ Independence from political interference achieved by two separate juridical persons in the Canada Pension Plan (CPP) and the CPP Investment Board (CPPIB)
- ✦ Clear role of CPPIB set out in Canada Pension Plan Investment Board Act
- ✦ Appointment of CPPIB Directors process designed to ensure independent appointments – minimises risk of political interference

GOOD MODEL – Canada Pension Plan

- ✦ Codes of conduct are public documents and two key aspects are:
 - Controls on personal investing
 - Disclosure of real or potential conflicts of interest
- ✦ Independent auditing firm required
- ✦ Procurement policy must be adhered to
- ✦ External custodian required
- ✦ Detailed signing authorities and limits
- ✦ Minister may appoint an auditor to conduct special audit

GOOD MODEL – Canada Pension Plan

Annual Report

- ✦ Distribution to federal and provincial financial ministers
- ✦ Members of federal parliament and provincial legislatures
- ✦ Stakeholder groups
- ✦ Public libraries
- ✦ Posted on web-site

GOOD MODEL – Canada Pension Plan

Annual Report Content

- ✦ Audited financial statements
- ✦ Statement of corporate governance
- ✦ Duties, objectives and mandate
- ✦ Board committees
- ✦ Decisions requiring board approval
- ✦ Board performance review
- ✦ Expectations of management
- ✦ Objectives for past year and how met
- ✦ Objectives for coming year
- ✦ Total compensation of top-five officers

GOOD MODEL – Canada Pension Plan

Further Transparency and Reporting

- ✦ Rates of return
- ✦ Market value of assets
- ✦ Conference calls
- ✦ Public meetings
- ✦ Conducts broad dialogue and reporting campaign with Canadians coast to coast

Aim is

Disclose Disclose Disclose

GOOD MODEL – Norwegian Government Petroleum Fund

- ✦ Clear accountability role
 - Ministry of Finance is 'owner'
 - Major changes debated in Parliament
 - Central Bank, Norges Bank, is operational manager
- ✦ The Petroleum Fund produces detailed Annual Report
- ✦ Ministry of Finance also requires quarterly reports

GOOD MODEL – Norwegian Government Petroleum Fund

- ✦ Reports open to public and presented
 - On website
 - At press conferences
- ✦ Ministry
 - Decides strategy
 - Sets benchmark and risk parameters
- ✦ Norges Bank measured against benchmark
- ✦ Ministry uses independent consultants to get second opinion on performance

GOOD MODEL – Norwegian Government Petroleum Fund

The Government Petroleum Fund Annual Report contains detailed information on:

- ✦ Mandate
- ✦ Return on Fund in that year
- ✦ Fixed income management
- ✦ Equity management
- ✦ Risk exposure
- ✦ Organisation of management
- ✦ Management costs
- ✦ Reporting of accounts

Also contains

- ✦ Auditors report
- ✦ Management mandate
- ✦ Organisation chart of Norges Bank
- ✦ Holdings of equities at year end
- ✦ Fixed income investments at year end

GOOD MODEL – Norwegian Government Petroleum Fund

- ✦ Annual Report is model of transparency
- ✦ Includes excellent features such as cost comparisons with other funds
- ✦ Excellent website
- ✦ Altogether very high level of transparency and accountability

GOOD MODEL – CALPERS

- ✦ Core values are quality, respect, integrity, openness and accountability
- ✦ Guiding principles include providing meaningful information and education to all constituents in a timely manner
- ✦ Business philosophy includes
 - “demonstrating accountability by taking responsibility for our actions”
 - “supporting open communication”
- ✦ Strategic goals include fostering environment that values openness and accountability

GOOD MODEL – CALPERS

- ✦ Clear fiduciary duties of those responsible for management, investment and administration
- ✦ Governance structure includes high level of accountability to beneficiaries
- ✦ Adopted policy of full disclosure to beneficiaries extending beyond regulatory requirements
- ✦ High level of transparency and accountability to beneficiaries has enabled it to pursue corporate governance activism leading to perceived improvements in performance
- ✦ Recently announced reintroduction of disclosure of private equity investments including
 - Internal rate of return for fund and fund of funds
 - Amounts of cash invested
 - Profits realised
- ✦ Comprehensive website is a key feature

GOOD MODEL – CALPERS

Website includes

- ✦ Information on governance structure
- ✦ Names and occupations of its trustees
- ✦ Board meeting calendar and agenda
- ✦ Laws and board decisions
- ✦ Approach to corporate governance
- ✦ ‘Guest’ section where questions can be asked/comments made
- ✦ Investment policies

MODELS WITH MORE TO DO

Central Provident Fund (CPF) in Singapore

- ✦ Process of actual investment of CPF balances has raised transparency, adequacy and fiduciary responsibility issues
- ✦ Reforms suggested include
 - Higher priority to fiduciary responsibility by CPF Board
 - Greater transparency of investment process and outcome

MODELS WITH MORE TO DO

Southeast Asia Region

- ✦ May require setting up of provident and pension funds authority

Japan

- ✦ Government Pension Investment Fund (GPIF) reports to Minister of Health Law and Welfare – Minister has political rather than economic responsibility
- ✦ GPIF needs full disclosure of information

CONCLUSION

Transparency and Accountability

- ✦ Are part of good governance
- ✦ Are strong features of funds which work well
- ✦ Growing in importance globally
- ✦ No one ideal model as it must be country specific based on:
 - Capacity to regulate
 - Standards of accounting
 - Trust law
 - General governance quality
- ✦ Must be there in legislation **and in practice**