



Botswana Pensions Society Virtual Trustee Seminar
Retirement funds management ethics, standards and good governance



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Introduction

As custodians of governance, the Board of Trustees should ensure that the Retirement Fund operations are in terms of laws, regulations and registered rules of fund. In South Africa, the Financial Service Conduct Authority (FSCA) Circular PF130 “Good Governance of Retirement Funds” is the yardstick followed by retirement funds as far as good corporate governance is concerned.

This provides guidelines to the effective management of Boards of Trustees of Retirement Funds. In essence it pertains to good governance and merely provides guidance in this regard.

The fundamental principle noted in this circular is that the board:

- Must act with utmost good faith towards the fund and in the best interest of all members.
- Must give full and proper effect to the rules of the fund.
- Deals with all matters relating to the fund and its members in accordance with the fiduciary duties fairly and with respect.

Introduction (continued)

Non-bank Financial Institutions Regulatory Authority (NBFIRA) prescribes the minimum standards of board members for retirement funds in Circular No. 3 of 2020. The purpose of the standards is to further the governance of retirement funds by prescribing the following:

- Minimum level of educational qualifications.
- Skills and training
- Code of conduct

In addition to the above, the board shall have an annual independent assessment of its performance, processes and procedures.

NB: Even though this document is mainly based on the FSCA Circular PF130, the NBFIRA Circular 3 was considered.

Purpose for good governance

Good governance is to ensure that:

- Benefits in terms of the rules of the fund are delivered
- Benefits are optimized and associated investment risks are minimized, with these opposing concepts being appropriately balanced against each other;
- Provision of benefits and the administration of the fund warrants that the cost implications for members and beneficiaries are transparent and quantifiable by the stakeholders.

Good governance for Retirement Funds

The governance principles can be categorized in the following 3 broad areas:



Governance of the board of trustees

1. Roles, responsibilities & accountabilities of the board.
2. Composition and competency of the board and sub-committees
3. Trustee education
4. Trustee assessment and governance breaches



Governance of the fund's business

5. Internal controls and governance mechanisms
6. Expert advisors
7. Risk management
8. The investment performance of the fund assets



Management of relationships

9. Communication and access to information.
10. Members and Beneficiaries.
11. Employer and Sponsor
12. Regulatory authorities

Principles of good governance

Principle 1: Roles, responsibilities and accountabilities of the board

- Duties and responsibilities of the Chairman, Principal Officer and the Board of Trustees
- The fiduciary duty owed by the board and the principal officer requires that they avoid conflicts of interest.
- Members of the board should be able to demonstrate their independence.
- Respect confidentiality
- **Code of conduct:** The Board must have code of conduct which outlines and confirms its duties and obligations. Each board member completes an acceptance of duties form. Annual or more frequently declaration of interests.

Principles of good governance (continued)

Principle 2: Composition and competency of the board and sub-committees

- Sufficient capacity: Board members should have sufficient capacity to deal diligently and thoroughly with their duties and responsibilities.
- Professional expertise: Large funds may benefit from professional trustees i.e. lawyers, actuaries and CA's where costs are justified.
- Sub-committees: Proper mandate to sub-committees and risk management by sub-committees

Principle 3: Trustee education

- New Board members should receive rigorous and comprehensive training on legislative, regulatory and governance principles.
- Board members should be educated on an ongoing basis.

Principles of good governance (continued)

Principle 4: Trustee assessment and governance breaches

- Performance appraisals: Subjected to a performance appraisal at least once a year to assess the effectiveness of the board, principal officer and sub-committees.
- Breach of governance by a trustee: must have process for managing and enabling provision in the fund rules to suspend or expel a trustee.

Principle 5: Internal controls

Trustees must exercise oversight function, in particular:

- Regular assessment of those with operational responsibilities
- Regular review of fees and costs, as well as the quality of services delivered.
- Regular review of accounting and financial reporting processes
- Monitoring of conflicts of interest amongst those with operational responsibilities
- Regular review of compliance with laws, rules and regulations.

Principles of good governance (continued)

Principle 6: Expert advisors

- Trustees are not expected to have expert skills and must get expert advisors where they do not have those skills. Experts may include accountants, actuaries, investment manager and lawyers.

Principle 7: Risk management

The management of risk in a fund is a vital component of the governance of the fund. Every fund should have in place a **risk management policy** which should be reviewed annually and should include:

- Identification of risks facing the fund.
- The impact of such risk to the fund.
- Process or controls necessary to reduce the impact of the key risks.
- The monitoring of the risk process or controls to ensure that they are appropriate.
- The communication to members and the stakeholders of the funds risk management policy.

Principles of good governance (continued)

Principle 8: The investment performance of the fund assets

A fund should have an **investment policy statement (IPS)**, which should be communicated to stakeholders, and reviewed annually to ensure it remains in terms needs of the fund.

The IPS should contain the following minimum information:

- Who the fund's investment advisors are.
- Where applicable, who the custodian are.
- Whether the investments are in the form of an insurance policy or a segregated mandate, and the reasons thereof.
- What the targeted benchmarks are in respect of each asset manager.
- The level of risk attributed to each asset class/asset manager.

Principles of good governance (continued)

Principle 9: Communication and access to information

- Board members should have unfettered access to all relevant information to enable them to make informed decisions.
- Fund information is confidential, especially member's information and data.
- The information about a fund, its membership and investments belong to the fund and the board should ensure that where this information is held by a service provider, that it is returned to the fund should that relationship be terminated.
- A communication policy should be established for the disclosure of the fund information to members and beneficiaries.

Principles of good governance (continued)

Principle 10: Members and Beneficiaries (Protection of rights)

- The board must communicate to members and beneficiaries regularly. Communications includes the performance of the fund's investment and trustees' decisions.
- The board must respond to members' communication promptly and with respect.

Principle 11: Employer and Sponsor

- A fund owes the employer and sponsor a duty of good faith

Principle 12: Approved service providers

- When selecting approved service providers the board must be aware of possible conflicts of interest.
- The board cannot delegate its responsibility and therefore can be held jointly and severally liable for the actions of their mandated agents.
- A policy should be established which sets out the frequency of reporting by the administrators and service providers to ensure that the fund is administered and managed properly.



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