NBFIRA
Non-Bank Financial Institutions Regulatory Authority

Overview of Regulation. (PFR2)

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Presentation Outline

- Overview of the Retirement Fund Industry
- Prudential Fund Rules (pensions)
- Pension Fund Rule/PFR2
- Revisions to PFR2
- Way Forward / Other Regulatory Developments

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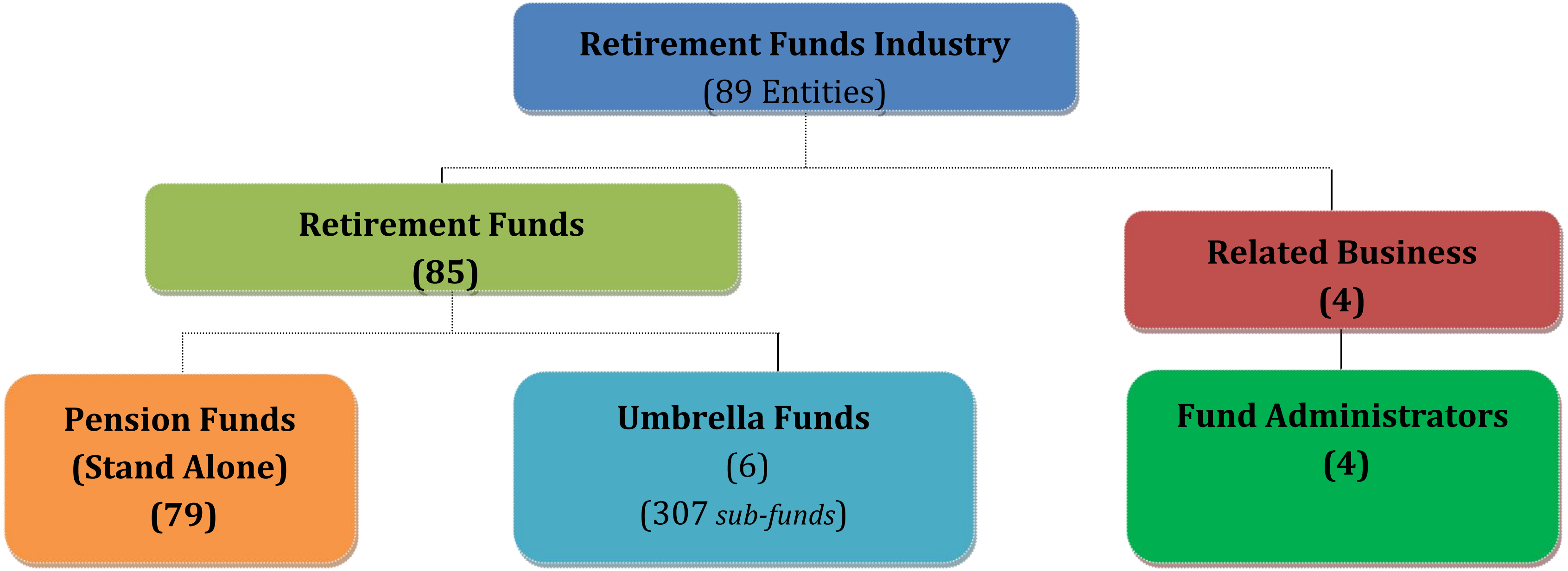
Retirement Funds Industry @ a Glance



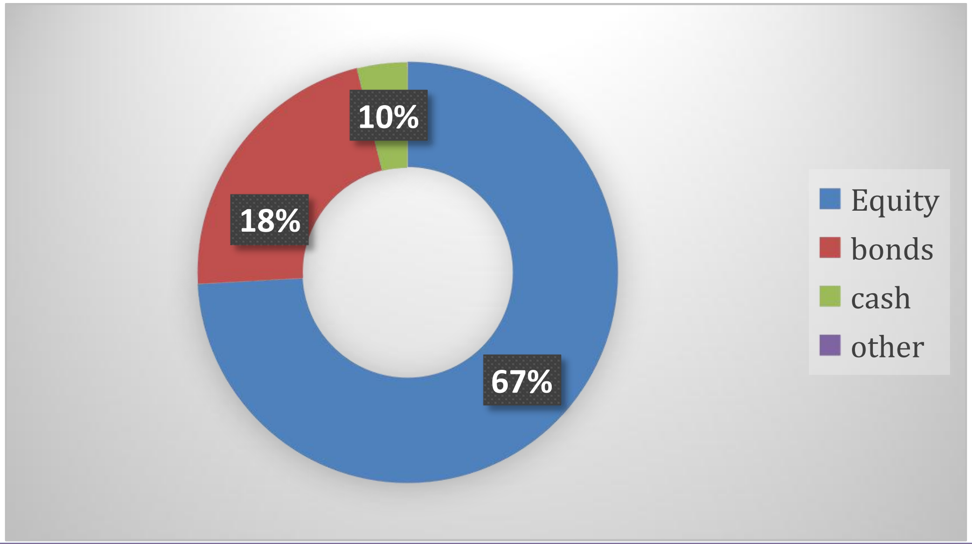
@ a Glance (2018)

Total Pension Assets
P79.billion

42% of GDP

59%
Offshore Investment

41%
Local Investment



COVERAGE

263 097 Members

Funds Membership (263,097)

- Active Members (232,439)
- Deferred Members (18,607)
- Pensioners (12,051)

Prudential Fund Rules

Section 4 (d) of the NBFIRA Act (2016) and Section 52 of the Retirement Funds Act (2017), empower ***NBFIRA*** to make Administrative Rules (Prudential Rules):

- In 2012 NBFIRA issued 13 Prudential Rules for Pension Funds under the repealed NBFIRA Act and Pension &Provident Act.

- **PFR2 Fund Investment Rule** was one of the Prudential Rules (Administrative Rule).

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Pension Fund Rule/PFR2

- Pension Fund Investment Regulation is a key aspect of the regulatory framework imposed on pension funds to limit risk taking (excessive),diverse the portfolio and reduce concentration risk.

- Regulatory frameworks throughout the world establish investment requirements to prevent "excessive" risk exposure in pension funds.

Pension Fund Rule/PFR2

- In defined benefits (DB) pensions, the regulatory framework generally establishes the need to achieve certain funding ratios.
- The purpose of these funding ratios is to make sure that there are enough assets backing pension liabilities.

Pension Fund Rule/PFR2

- For defined contribution (DC) pension funds, quantitative limits for investment regulations (PFR2) are often imposed, in some cases limiting the exposure to different asset classes, according to the risk profile.

Pension Fund Rule/PFR2

- Botswana has quantitative limits for pension investment regulation in the form of **PFR2.**

- Other countries in Africa with similar regulations e.g. Mauritius, Namibia, South Africa, Malawi &Nigeria.

Pension Fund Rule/PFR2

- **PFR2** is a Pension Fund Investment Rule which prescribes and restrict , the kind/type of assets, category and limits a pension fund assets can be invested.

- Seeks to implement portfolio diversification, risk management and sound fund governance.

Pension Fund Rule/PFR2

- **PFR2** requires that the Board have an Investment Policy Document (IPD) and an Investment Strategy.

- The investment strategy is to be submitted to NBFIRA once –every-3 years or whenever there is material change (+-20%).

Pension Fund Rule/PFR2

- The Board shall consult Experts to advise on appropriate investment strategy for the pension fund...

- The investment strategy shall clear set Strategic Asset Allocation (SAA) as well as,

- The criteria for selection ,assess performance of investment managers (benchmarks etc.).

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Pension Fund Rule/PFR2

In addition , **PFR2** requires that Pension funds appoint;

- Independent Trustee
- Risk Officer
- Compliance Officer
- Formulate a Risk Management Policy
- Establish a Risk Management Committee
- Comply with the Investments Limits

Revisions of **PFR2**

- In 2014, NBFIRA in consultation with the Industry (Technical Working Group) revised the Quantitative limits and asset class under **PFR2**.

- The latest revision or amendment to **PFR2** was effected in 2017.

- New issues to be considered; climate-change related risks, ESG /Responsible Investing Principles.

Way Forward /Other Regulatory Development

- **PFR2** provides for Exemptions where there is breach of the limits/Rule on a case-basis.

- ***NBFIRA*** maintains an open door policy in enhancing the application of PFR2.

Way Forward /Other Regulatory Development

- Development of fund administration guidelines.
- Development of Private Equity Guidelines for pension funds.
- Development of Custodian Guidelines for pension funds.

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