



<b>Submission form</b>	
<b>Consultation on Key Function Holders</b>	
Please provide your views by close of business on Friday 8 December 2017 to Christina Winters at <a href="mailto:cwinters@pensionsauthority.ie">cwinters@pensionsauthority.ie</a> .	
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<b>Internal Audit</b>	
<b>No:</b>	<b>Questions:</b>
<b>Q1</b>	What type of experience do you think would be valuable in carrying out the internal audit function for a pension scheme?
<b>A1</b>	
<b>Q2</b>	What types of professional individuals/organisations ought to undertake internal audit for pension schemes e.g. auditors, accountants, pension specialists?
<b>A2</b>	



<b>Q3</b>	<p>The Authority is considering specifying the qualification areas which the trustees could consider to be relevant, for example, accountancy, auditing and pensions. Do you consider these example qualification areas appropriate? Are there any additional qualification areas you think should be considered? Would these requirements inappropriately limit the pool of individuals who could undertake this work?</p>
<b>A3</b>	
<b>Q4</b>	<p>The Authority is considering setting a minimum of NFQ level seven for the relevant qualification. Do you consider this to be a reasonable minimum level in order to carry out this function? Would these requirements inappropriately limit the pool of individuals who could undertake this work?</p>
<b>A4</b>	
<b>Q5</b>	<p>The Authority is considering requiring a two year minimum period of relevant experience. Should the relevant experience be limited to internal audit or broader? If broader, what else should be included? Do you consider two years to be a reasonable period to ensure adequate knowledge and experience? Would these requirements inappropriately limit the pool of individuals who could undertake this work?</p>
<b>A5</b>	



<b>Q6</b>	The Authority is considering requiring that the internal audit function holder be a member of a relevant professional body linked to their relevant qualification. Do you consider this to be a reasonable requirement for someone tasked with this function? Would these requirements inappropriately limit the pool of individuals who could undertake this work?
<b>A6</b>	
<b>Q7</b>	What conflicts, if any, could arise where a scheme's internal audit function holder acts in a similar capacity for the sponsoring employer? How might trustees of a scheme demonstrate that they manage the conflict?
<b>A7</b>	
<b>Q8</b>	Have you any additional comments?
<b>A8</b>	<i>The Society notes the requirement in Article 21(2) of the Directive that “The system of governance ... shall be proportionate to the size, nature, scale and complexity of the activities of the IORP”. The requirement for an internal audit function will impose an additional burden on smaller schemes which is higher (on a per-member basis) than for larger pension schemes. Such a burden may call the viability of smaller schemes into question unless the principle of proportionality is respected.</i>
<b>Risk management function</b>	
<b>Q9</b>	What type of experience do you think would be valuable in carrying out the risk management function for a pension scheme?



<b>A9</b>	<p>The experience required to carry out the risk management function should enable the function holder to address the risks which may arise in the areas set out in Article 26 of the Directive and in the consultation document. In our view this is likely to include recent demonstrable experience in, combined with advanced understanding of, one or more of the following areas:</p> <ul style="list-style-type: none"><li>• Actuarial advice on funding, reserving and solvency for a defined benefit scheme</li><li>• Investment advice covering investment policy principles, strategic advice, risk budgeting, risk mitigation techniques (hedging, derivative based structures)</li><li>• Asset liability modelling</li><li>• Stress tests or scenario analysis</li><li>• Operational risk – particularly for defined contribution schemes.</li><li>• Regulatory environment</li></ul> <p>In addition, it would be very beneficial if the person responsible for the risk management function had practical experience of pension schemes.</p>
<b>Q10</b>	<p>What types of individuals/organisations ought to undertake risk management for pension schemes e.g. actuaries, auditors, accountants, pension specialists?</p>
<b>A10</b>	<p>Actuaries are highly experienced in risk management and have contributed to, and in many cases led, this activity for pension schemes, both defined benefit (DB) and defined contribution (DC). As far back as 2010, the Society published a sample risk register to help pension scheme trustees and sponsoring employers, with the assistance of their actuarial advisers, to identify the various risks inherent in pension schemes and to manage these risks effectively. (<a href="https://web.actuaries.ie/news/10/06/sample-risk-register-pension-schemes">https://web.actuaries.ie/news/10/06/sample-risk-register-pension-schemes</a>).</p> <p>Scheme Actuaries, in particular, are encouraged by the Society to use the sample risk register to engage with their clients on the broad spectrum of risks, from financial to operational, that pension schemes face. In addition, paragraphs 2.9 and 2.10 of ASP PEN-1: Funding Defined Benefits - Actuarial Reports (<a href="https://web.actuaries.ie/standards/asp/asp-pen-1">https://web.actuaries.ie/standards/asp/asp-pen-1</a>) explicitly require Scheme Actuaries to include an analysis of risks in valuation reports for DB schemes prepared in accordance with section 56 of the Pensions Act.</p> <p>Much of the strategic work that Investment Consultants do should, in our view, also be classified as part of the risk management function. For example, within a DB scheme, the way in which an Investment Consultant inputs into a strategic review of the assets of a pension scheme in the context of its liabilities is, in our view, a very tangible example of how an Investment Consultant feeds into the risk management function of a pension scheme.</p>



	<p>We believe that Scheme Actuaries and actuaries who act as Investment Consultants, who in practice are already undertaking risk management work for pension schemes, are best placed to be responsible for the risk management function. Other actuaries who are not currently Scheme Actuaries such as those who advise pensions schemes in a different capacity or those who advise other financial institutions on risk management (Fellows of the Society of Actuaries in Ireland (FSAI) and Certified Enterprise Risk Actuaries (CERA)) would also be suitable as would other Investment Consultants (e.g. Certified Financial Analysts (CFA)).</p> <p>Other types of individuals/organisations may also be able to undertake risk management but we are of the view that for a risk management function to be effective in relation to a pension scheme, it would be preferable that the function holder have a strong understanding and practical knowledge of pensions commensurate with the size, nature, scale and complexity of the scheme.</p>
<b>Q11</b>	<p>The Authority is considering specifying the qualification areas which the trustees could consider to be relevant, for example, actuarial, accountancy, auditing and pensions. Do you consider these example qualification areas appropriate? Are there any additional qualification areas you think should be considered? Would these requirements inappropriately limit the pool of individuals who could undertake this work?</p>
<b>A11</b>	<p>We are of the view that the FSAI, CFA and CERA qualifications are likely to be relevant. Other qualifications may also be relevant, for example, Fellow of the Irish Institute of Pensions Management (FIIPM), or indeed specific risk management qualifications. While it may be important to have qualifications to demonstrate a minimum competency, experience is, in our view, as important or indeed more important when delivering an effective risk management function. Therefore, qualifications, while relevant, may not be sufficient to fulfil the requirements of the risk management function of a pension scheme.</p> <p>We do not think that imposing the requirements suggested would inappropriately limit the pool of individuals who could undertake this work.</p>
<b>Q12</b>	<p>The Authority is considering setting a minimum of NFQ level seven for the relevant qualification. Do you consider this to be a reasonable minimum level in order to carry out this function? Would these requirements inappropriately limit the pool of individuals who could undertake this work?</p>
<b>A12</b>	<p>Our view that a NFQ level 7 would be a minimum level. It may be appropriate to set the level at NFQ level 8, but this may also depend on the background and experience of the individual delivering the role.</p>



	<p>We do not think that imposing the requirements suggested would inappropriately limit the pool of individuals who could undertake this work.</p>
<b>Q13</b>	<p>The Authority is considering requiring a two year minimum period of relevant experience. Should the relevant experience be limited to risk management or broader? If broader, what else should be included? Do you consider two years to be a reasonable period to ensure adequate knowledge and experience? Would these requirements inappropriately limit the pool of individuals who could undertake this work?</p>
<b>A13</b>	<p>The Society agrees that the role holder should have relevant experience. In our view, relevant experience should include a combination of risk management experience, pension scheme knowledge and knowledge of investments.</p> <p>Specifying a two year minimum period is, in our view, not unreasonable and we would consider it to be the minimum. We believe that experience should not just be limited to risk management, but should also include pensions and investment experience.</p> <p>Requiring a minimum period of relevant experience, in conjunction with a minimum level of qualifications, should help trustees decide who is an appropriate person to deliver this function.</p> <p>We do not think that imposing the requirements suggested would inappropriately limit the pool of individuals who could undertake this work, but if there were concerns in this regard transitional provisions could be applied initially.</p>
<b>Q14</b>	<p>What conflicts, if any, could arise where a scheme's risk management function holder acts in a similar capacity for the sponsoring employer? How might trustees of a scheme demonstrate that they manage the conflict?</p>
<b>A14</b>	<p>We envisage that conflicts could arise where the risk management function for a scheme and an employer is carried out by the same person. However, for many companies, it is unlikely that the person who is responsible for risk management within the company would be appropriate to fulfil the risk management function for the pension scheme, given the very different risks faced by companies and pension schemes and the differing objectives of the sponsoring employer and the pension scheme.</p> <p>An example of a conflict that could arise is the following scenario: In a DC scheme that offers matching contributions, the trustees may wish to proactively write to all members reminding them of their ability to benefit from increased employer contributions if they increase their personal contributions. From the trustee perspective, this would reduce the risk of a member claiming that they were not aware of this benefit at a later stage. From a company perspective, this action could lead to a risk of increased employee benefit costs, without a</p>



	<p>corresponding increase in revenues. The increase in contributions is also likely to represent an opportunity cost to the sponsoring employer in relation to the additional capital required to meet the cost. As a consequence, the considerations and actions of the trustee and employer may not be aligned.</p> <p>A similar issue can arise when trustees of a DB scheme wish to de-risk their investments. Managing risk in the scheme can require additional contributions from the sponsor, leading to a potential conflict.</p> <p>The Society recommends that a written policy on dealing with potential conflicts of interest is put in place by the trustees. If the risk management function for the company and trustees is carried out by one actuary, or by two actuaries from the same firm, ASP PEN-13; Conflicts of Interest - Pensions Actuaries, (<a href="https://web.actuaries.ie/standards/asp/asp-pen-13">https://web.actuaries.ie/standards/asp/asp-pen-13</a> ) requires that a protocol on conflicts of interest is agreed with the two parties. A similar approach might be required where non-actuaries fulfil both roles.</p>
<b>Q15</b>	<p>What conflicts, if any, could arise where one function holder undertakes both the risk management and the actuarial roles for a scheme?</p>
<b>A15</b>	<p>Article 27(1)(h) of the Directive requires the actuarial function holder to “<i>contribute to the effective implementation of the risk management system</i>”.</p> <p>We are aware that the Central Bank of Ireland does not permit the same individual to have responsibility for both the risk management function (CRO) and actuarial functions (HoAF) for High Impact (re)insurance undertakings as it is considered necessary to ensure that the CRO provides an independent opinion on, and a sufficient challenge to, the work of the HoAF. The Society is of the view that this prohibition is not necessary for pension schemes as the role of both function holders is to inform and advise trustees on the risks facing the scheme and the adequacy of reserves to meet pension scheme liabilities and hence the roles would be largely complementary.</p> <p>The function holder should be able to demonstrate his/her independence and ability to perform both roles to an acceptable standard. If he/she is concerned that there may be a conflict of interests if he/she were to fulfil both roles in relation to a particular scheme, he/she should decline to do so.</p>
<b>Q16</b>	<p>Have you any additional comments?</p>
<b>A16</b>	<p>The Society notes the requirement in Article 21(2) of the Directive that “<i>The system of governance ... shall be proportionate to the size, nature, scale and complexity of the activities of the IORP</i>”. The requirement for a risk management function will impose an additional burden on smaller schemes which is disproportionately higher (on a per-member basis) than for larger pension schemes. Such a burden may call the viability of smaller schemes into question unless the principle of proportionality is respected.</p>



	<p>The requirements for the risk management function should be able to be applied equally to DC schemes as well as DB schemes (but excluding actuarial/funding elements).</p> <p>The transposition should allow some flexibility in who will fulfill the risk management function and actuarial function. For smaller DB schemes, it should be acceptable and cost-efficient for both roles to be fulfilled by the same individual. For larger schemes it may be more appropriate for the roles to be performed by separate individuals.</p> <p>Employer covenant risk should also be considered by the risk management function, particularly for DB schemes.</p>
<b>Actuarial function</b>	
<b>Q17</b>	<p>The Authority is considering requiring that all actuarial key function holders have been granted and currently hold a valid Scheme Actuary Certificate under the rules of the Society of Actuaries in Ireland. Do you consider this a reasonable requirement to be able to carry out this function?</p>
<b>A17</b>	<p>Under the Pensions Act, the trustees are required to appoint an actuary to fulfil certain statutory requirements e.g. produce an Actuarial Funding Certificate and a Funding Standard Reserve Certificate under Section 42, certify a funding proposal under Section 49, sign an application under Section 50 etc. The Act also requires that the actuary who fulfils these roles must hold a valid Scheme Actuary certificate issued by the Society.</p> <p>The Society has adopted Rules and Regulations regarding the operation of the Scheme Actuary Certificate regime, and requires certificate holders to apply annually to renew their certificates. A certificate will not be granted, or renewed, if it appears that the actuary does not have sufficient experience or expertise to fulfil the role. For example, a Scheme Actuary Certificate holder is subject to more onerous requirements in relation to Continuing Professional Development, and must have a sample of his/her work reviewed each year by an independent actuary under ASP PEN-10: Compliance monitoring reviews of the statutory work of scheme actuaries. (<a href="https://web.actuaries.ie/standards/asp/asp-pen-10">https://web.actuaries.ie/standards/asp/asp-pen-10</a> )</p> <p>The Society considers that it is appropriate that an actuary who carries a high level of responsibility for the security and sustainability of a pension scheme is required to demonstrate that he/she has the experience and expertise to fulfil the role. The Society therefore welcomes the suggestion by the Authority that the person responsible for the actuarial function should hold a practising certificate issued by the Society. As the requirements of the actuarial function role are</p>





	<p>different to the current responsibilities of actuaries under the Pensions Act, it may be necessary to review the type of experience and expertise required in order to grant a certificate for the purpose of fulfilling the actuarial function role. The Society would be pleased to discuss this further with the Authority.</p>
<b>Q18</b>	<p>What conflicts could arise where a scheme's actuarial function holder acts in a similar capacity for the sponsoring employer? How might trustees of a scheme demonstrate that they manage the conflict?</p>
<b>A18</b>	<p>It is well understood that there can be circumstances where potential conflicts of interest arise making it inappropriate for an actuary to advise both the trustees (as Scheme Actuary or otherwise) and the sponsoring employer. These include, for example, scheme wind-up or restructuring (Section 50 Orders), funding proposals, enhanced transfer value exercises etc.</p> <p>For this reason, the Society introduced ASP PEN-13; Conflicts of Interest - Pensions Actuaries (<a href="https://web.actuaries.ie/standards/asp/asp-pen-13">https://web.actuaries.ie/standards/asp/asp-pen-13</a>) in 2010, which requires that in cases where an actuary has a "dual appointment" with the trustees and the sponsoring employer, a protocol on conflicts of interest is agreed with the two parties. This sets out how actual conflicts will be addressed, which usually requires that the actuary relinquishes one or both of the appointments. We believe that this has worked well in practice during difficult times for pension schemes and that actuaries have been careful to ensure that they have not been put in positions where a conflict of interest exists or may be perceived to exist.</p> <p>Where the interests of the trustees and the sponsor are aligned it is acceptable and indeed may be preferable, for consistency of approach and to reduce costs, for a single individual to hold a dual appointment, and we would not recommend that this practice be prohibited.</p> <p>We note that the under Article 28(2)(c) of the Directive, the trustees will be required as part of the own risk assessment to provide "a description of how the IORP prevents conflicts of interest with the sponsoring undertaking". We would expect this to refer to the protocol, which should be kept under constant review.</p>
<b>Q19</b>	<p>What conflicts could arise where one function holder undertakes both the actuarial and risk management roles?</p>
<b>A19</b>	<p>See A.15</p>
<b>Q20</b>	<p>Have you any additional comments?</p>
<b>A20</b>	<p>The Society notes the requirement in Article 21(2) of the Directive that "The system of governance ... shall be proportionate to the size, nature, scale and complexity of the activities of the IORP". The requirement for an actuarial</p>



function, in addition to the existing requirements under the Pensions Act, may impose an extra burden on smaller schemes which is higher (on a per-member basis) than for larger pension schemes. Such a burden may call the viability of smaller schemes into question unless the principle of proportionality is respected. We recommend that, where possible, the transposition of the Directive requires a minimum of additional compliance requirements on top of those already required.

The Society notes that Article 27 of the Directive requires that the actuarial function must, inter alia,

*(f) express an opinion on the overall underwriting policy in the event of the IORP having such a policy;*

It is not clear what is intended here; in general, a pension scheme does not medically underwrite those joining the scheme, although there may be some medical underwriting requirements in relation to the insurance of death benefits under the scheme. If the meaning of underwriting in this context is the pricing of risks taken on by the scheme, then this suggests that the actuarial function should comment on the level of contribution being paid to meet the ongoing accrual of benefits. This would seem to be an appropriate requirement and if this is what is intended, we recommend that the wording is amended to make this clear, and not transposed verbatim.

The Society notes that Article 27(2) requires that the actuarial function is filled by an “independent” person and would recommend that the meaning of the word “independent” is clarified in the transposition of this Article.