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Financial governance: OECD Guidelines for Pension Fund Governance

OECD governments have approved guidelines for the administration of private pension funds that are designed to help protect individuals' retirement benefits from mismanagement and fraud.

The 12-point Guidelines for Pension Fund Governance mark the first initiative by OECD countries to set international standards for the governance and oversight of collective pension funds. They propose a governance structure with shared responsibility and built-in checks and balances, such as regular reviews by an independent auditor. They also propose that pension fund management be held legally accountable for protecting the interests of retirement plans' members and beneficiaries.

The OECD initiative comes at a time when high-profile corporate bankruptcies are jeopardising employee retirement benefits and when under-funded company pension plans are drawing increased scrutiny from credit rating agencies. Although the guidelines are voluntary, they have been adopted as an international benchmark by OECD's 30 member governments. The OECD will monitor their implementation, and the World Bank and the International Monetary Fund will use them as part of their regular assessment of international standards.

Privately managed pension funds are among the largest institutional investors in many OECD countries, holding nearly 30 percent of OECD financial assets in 2000. They are expected to play an increasingly significant role in providing retirement income to the ageing populations in OECD countries and, given their size, a central role in the financial marketplace. Their regulation, supervision and governance is imperative for the successful implementation of social policy, as well as for the smooth functioning of the markets for securities and other financial instruments. Similar considerations increasingly apply in many non-OECD countries, particularly those that are transforming their public pension plans to privately managed programmes.

The guidelines provide governments with a road map for regulating private pension funds by including specific proposals for:

- The appropriate legal and governance structures to ensure funds are managed in the best interest of plan members and beneficiaries
- The accountability, integrity and professionalism of individuals on funds' governing bodies
- Transparency and rules for communication between fund managers and plan members
- Actuarial certification, independent auditing and the role of both actuaries and auditors as "whistleblowers"

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The guidelines are a first step in an OECD project launched in 2002 to strengthen the governance of financial institutions (the “financial governance”) and improve the integrity of financial markets. They are also a continuation of on-going work on pension-related standards, developed in co-operation with the International Network of Pension Regulators and Supervisors, a group of more than 120 government institutions associated with the OECD.

The full text of the guidelines is available on the OECD’s website at <http://www.oecd.org/pdf/M00035000/M00035832.pdf>

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