

TCU SA

TRUSTEE COMPETENCY AND UNDERSTANDING

FULL SCOPE GUIDANCE DOCUMENT



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TCU SA

SCOPE GUIDANCE DOCUMENT

Units 1 to 4 for Tender Presentation

This document is based on Circular PF130 issued on 11 June 2007 by the Registrar of Pension Funds

SCOPE GUIDANCE FOR GOOD GOVERNANCE OF RETIREMENT FUNDS IN SOUTH AFRICA

BACKGROUND INFORMATION

It has been estimated that at least six people rely on an individual pension in South Africa, sometimes the only means of saving for many. The assets of retirement funds within South Africa are in excess of R3 trillion with approximately 40,000 trustees serving on the governing boards of retirement funds today. Retirement fund trustees play a significant role in decision-making on retirement fund savings. Several calls have been made from various sectors of the country for the Financial Services Board (FSB), through its Consumer Education Department, to play a more significant role in facilitating trustee education and competency building in the retirement funds industry. The Growth and Development Summit has named this a national imperative in 2003 and the Financial Stability Study conducted by the World Bank and IMF during June of 2007 has commended the FSB for issuing Circular PF 130 on good governance for retirement fund trustees). There is therefore a great need to put good governance into practice through providing professional development for trustees through a trustee knowledge and understanding program to address the issues which have been plaguing the industry for the past decade: from non-payment of contributions to secret profits taken by third parties at the detriment of retirement fund members from the proceeds of bulking practices (pooling of assets).

RESEARCH

The need for professional development and support for retirement fund trustees is well-documented e.g. National Treasury's Discussion Paper on Retirement Reform and various other industry publications and by various academics of the Law Faculties at Tertiary Institutions in South Africa. There is a strong sense that trustees can benefit from an independent e-learning tool issued by and revised by the FSB in its supervisory role as facilitator of consumer education in the financial services sector.

PREAMBLE

1. The assets of a retirement fund are administered for the main purpose of providing the benefits promised in terms of the registered rules of that fund. The board of management (sometimes referred to as trustees) therefore holds fund assets in trust for those persons who will ultimately benefit from them. They stand in a position of trust or fiduciary relationship to funds and therefore must act with *integrity*. As fiduciaries, the board, its alternates and other

persons duly appointed by the board to act on its behalf, have to deal with the assets or affairs of the fund in terms of pensions law, the common law, customary law, regulations, the (registered) rules of the fund, codes of conduct and policies that apply to the fund. Trustees may be required to exercise a degree of discretion in making decisions. Therefore, not all circumstances relating to the management and functions of the board may be circumscribed or clearly defined within a legal framework. This necessitates the introduction of governance measures. Governance therefore includes values and ethical principles which require a certain standard of behaviour of the board.

2. *The fundamental principle* is that the board shall at all time act with the *utmost good faith* towards the fund and in the best interest of all members. The board should always give full and proper effect to the rules of the fund and the board should deal with all matters relating to the fund and its members in accordance with their fiduciary duties, *fairly* and with respect.
3. The stakeholders in the governance of a fund are the fund's members (they include pensioners, former members and deferred pensioners), their dependants and, if applicable, nominees of the members (the dependants and nominees hereafter referred to as "the beneficiaries"). The other parties affected by the governance of a fund are the employer participating in the fund (other than with a preservation fund), the sponsor (if not the employer) and the Registrar (all of whom are collectively referred to as "the stakeholders").
4. Accordingly, the purpose of good governance in a fund is to ensure that –
 - 4.1. the benefits provided for in terms of the rules of the fund are actually delivered;
 - 4.2. the benefits are optimised and the associated investment risks are minimised, with these opposing concepts being appropriately balanced against each other;
 - 4.3. the process involved in the provision of the benefits and the administration of the fund warrants that the cost implications to members and beneficiaries, is *transparent* and quantifiable by the stakeholders.
5. The board of a fund, assisted by the principal officer, is *responsible* for the governance of a fund.
6. Fundamental to the governance of a fund is the extent of the *accountability* of the board and the principal officer. The principal officer is appointed by and *accountable* to the board, and the board is *accountable* to the members and beneficiaries and the Registrar for its governance of the fund. The board is secondarily also *accountable* to the employer participating in the fund and the sponsor of the fund because, in respect of an employer, the fund fulfils one of the employment promises made by the employer, which is to provide the benefits set out in the rules of the fund; and in respect of the sponsor (if different from the employer), because the sponsor set up the fund confirming provision of the benefits in terms of the rules. This accountability for the governance of a fund is very important due to the fact that the assets of a fund are required by members and beneficiaries to fulfill a vital need on retirement, withdrawal from service, death or disability. Members and beneficiaries require legal recourse or remedies should the benefits not be provided to them as stipulated in the rules of the fund.
7. The accountability requirement of the board means that collectively and individually the board members may be held liable for any breach of the governance which results in any loss to the fund and to the members or beneficiaries in the provision of benefits. The board should adhere to the rules of the fund and should institute disciplinary measures in the event of an alleged breach by a board member. Furthermore, members and beneficiaries may request the Pension Funds Adjudicator or a court of law to determine the liability of the board.
8. The board and the principal officer should ensure at all times that their governance of the fund complies with the requirements of the applicable legislation. This means that the rules of the

fund should be adhered to, the applicable legislation followed and other legal or compliance requirements should be applied. The board should obtain expert advice where necessary for this purpose.

9. With the above as background, the *principles* of governance are set out below. These are under the following headings –
 - 9.1. the governance by the board of itself/ the governance structure;
 - 9.2. the governance by the board of the operations of the fund/ the governance mechanism; and
 - 9.3. the management of relationships in the governance of the fund.
10. Every fund should have –
 - 10.1. a code of conduct;
 - 10.2. an investment policy statement (IPS);
 - 10.3. a communication policy; and
 - 10.4. a performance assessment tool for trustees which should inform their education and training policy.
11. Reference should also be made in the annual financial statements of a fund to the fact that a fund has each of these documents in existence and that they have, during the period of those financial statements, been viewed by the board and are available to beneficiaries on request or accessible on the appropriate website or through the principal officer. Communication to the board and members should be done in an adequate, appropriate and cost-effective manner to afford all parties the opportunity to understand the information and make informed decisions.
12. Any annexure(s) added to this circular should be regarded as providing guidelines for creating appropriate policies and as flexible documents which may be amended from time to time. Funds may adapt these documents to suite their unique needs and circumstances without detracting from the principles contained therein, because good governance requires the application of appropriate and cost effective policies and processes to cater for the specific needs of different funds.

GOVERNANCE BY THE BOARD

UNIT 1: Roles, Responsibilities and Accountabilities of the Board/ the Governance Structure

THE BOARD

13. The board is *responsible* and *accountable* to the members for the administration of the fund, including the prudent investment of fund assets.
14. The board may, should the rules of the fund permit, delegate some of its functions to board sub-committees, employees of the fund and service providers; but such delegation does not relieve the board of accountability for the functions so delegated. The board may not abdicate from any of its functions and responsibilities.

15. The board members should act jointly. If the rules of a fund permit a decision of the board to be carried by a majority of its members voting in favour of it, then the minority should respect the majority decision. Strong objections may be minuted but the final decision should be recorded clearly. A deadlock breaking mechanism should be outlined in the rules.
16. Irrespective of whether board members are employer-appointed, member-elected, in the employment of the sponsor or independent board members, they –
 - 16.1. should endeavour to work together;
 - 16.2. should trust each other and also be worthy of trust in return;
 - 16.3. owe a primary duty of care to the fund and the members and beneficiaries, and are not specifically *accountable* to or required to disclose any information to that group of persons or entities through whom they were appointed or elected as a board member. To this end the board should be sensitive to managing the diversity of the board effectively to ensure that any tension, fears, disagreements, influence, affiliations, special interests, etc. do not hinder decision-making.

THE CHAIRPERSON

17. The chairperson of the board is pivotal in creating the conditions for overall board and individual board member effectiveness. To this end the chairperson should –
 - 17.1. proactively lead the board impartially, for example, without bias in favour of the sponsor, the employer or any service provider;
 - 17.2. confirm the agenda for board meetings, and review the draft minutes of such meetings;
 - 17.3. manage board meetings to ensure that sufficient time is allowed for discussion of complex or contentious issues;
 - 17.4. ensure that the performance of the board as a whole, the board sub-committees and the principal officer is reviewed and evaluated on a regular basis; and also to manage the performance of any board member or sub-committee that is not performing as required;
 - 17.5. meet regularly with the principal officer to monitor the operations of the fund;
 - 17.6. if required, act as spokesperson for the fund;
 - 17.7. proactively raise issues of concern, on behalf of the board, with the sponsor, the employer, the administrator and other service providers;

THE PRINCIPAL OFFICER

18. The role of the principal officer is vital for the proper performance of the board. The principal officer should not be the chairperson of the board and his or her duty to the fund overrides any responsibilities or obligations arising from being in the employment of or remunerated by the employer, the sponsor or any service provider. The principal officer's functions include -
 - 18.1. ensuring that decisions of the board are executed;
 - 18.2. ensuring that the fund complies with the formal requirements of the law, including directives from the Registrar, SARS and any other relevant regulatory authority;

- 18.3. liaising on behalf of the board with service providers to the fund, unless where there is direct contact between the board and the service provider;
- 18.4. contributing at board meetings even though, as principal officer, he or she does not have any vote in any decisions of the board if he/she is not a board member.

CONFLICTS OF INTEREST

19. The fiduciary duty owed by the board and the principal officer requires that they *avoid conflicts of interest*. The following should be appreciated by the board and the principal officer in this regard –
 - 19.1. the proper resolution by the board of any conflict of interest is necessary for promoting the credibility of the governance of a fund; and enhances the trust of both members and beneficiaries and any stakeholders;
 - 19.2. the board should distinguish between conflicts of interest which may be structural, and therefore unavoidable, and those conflicts of interest which can be avoided or, if this does not compromise the credibility of the governance arrangements, managed appropriately;
 - 19.3. a structural conflict of interest may arise where a board member finds himself or herself in a position in which his or her duties as board member conflict with his or her direct or indirect personal financial interests or the financial interests of a stakeholder in the fund (such as the employer or the sponsor), of which he or she is an employee or in which he or she is a shareholder. In such circumstances the legislation is clear: the primary obligation of a board member is to act in the best interests of the fund and the members and beneficiaries. Where a board member finds himself/ herself in a structural conflict of interest situation one should act without regard for one's personal interests or those of the entity or persons through which he or she was appointed. This is to ensure one's actions in such a situation may, as far as possible, be demonstrated to be no different, as if the structural conflict did not exist;
 - 19.4. any conflict of interest other than a structural conflict should be avoided. The board should ensure, not only in relation to conflicts of interest as amongst the members of the board or the principal officer, but also in relation to any service provider to the fund, that a conflict of interest is removed or, if this is not possible, resolved *transparently* and defensibly. The mere disclosure of such a conflict of interest will rarely be an adequate resolution of a conflict of interest;
 - 19.5. potential or perceived conflicts of interest are as serious as actual conflicts of interest;
 - 19.6. any conflict of interest situation should be fully recorded in the board minutes, which should include details as to how the board has resolved the matter.
20. Members of the board should be able to demonstrate their *independence*. Such *independence* is essential also for the credibility of the governance arrangements, and is demonstrated by any discretion of the board being exercised in a manner which is impartial, fully informed and not influenced by inappropriate considerations. In particular the board should always consider what is in the best interests of the members, and should appreciate that the duty of good faith owed by the fund to the employer and the sponsor is subordinate to this requirement. In particular, the board should appreciate that it is not *responsible*, where the fund is an umbrella fund, preservation fund or a retirement annuity fund, for the viability of the business proposition of the sponsor in respect of such a fund.

21. Board members should respect the *confidentiality* of their functioning as a board and also the information pertaining to the fund. In particular, no board member may disclose information about the operations of the board or the fund unless authorised to do so by the board itself. Board members generally, but specifically board members in the employment of the sponsor of a fund, as well as independent board members, who may be members of various boards, need to be vigilant with respect to confidentiality.
22. Each board should have a *code of conduct* in which it outlines and confirms its duties and obligations. Every fund should also require of each board member that he or she completes an acceptance of duties form and, at least annually or at such greater frequency as the board may require, a declaration of interests. This should set out all financial and other interests as set out in the fund's codes of good practice/ code of conduct.

UNIT 2: Composition and Competency of the Board and delegation through the use of sub-committees

23. Board members should have sufficient capacity to deal diligently and thoroughly with their duties and responsibilities. Where an employer has the power to appoint board members in terms of the rules of the fund, the employer should use this power appropriately to ensure that the board has, as far as possible, the necessary skills. To minimise conflict of interest, the employer should preferably not appoint persons to the board who would otherwise be involved in decisions on behalf of the employer in respect of the fund. In umbrella funds, preservation and retirement annuity funds, the credentials of independent board members should be verified with the various regulatory authorities and/ or licensing institutions to ensure that the independent board members appointed to the board have the necessary fitness and propriety and skills to exercise their governance responsibilities.
24. Large funds may benefit from professional trustees, namely independent board members from a particular profession such as registered attorneys, actuaries and chartered accountants where the costs are justified. It is recommended that at least 50% of the board of multiple-employer (umbrella) funds and retirement annuity and preservation funds should be independent.
25. Independent board member should not be employees of the employer participating in the fund and neither should they be controlled by, or in common control with the employer, the administrator or the sponsor of the fund. The independent board member should preferably not provide any other services to the fund or the employer or the sponsor, other than serving as a trustee to the fund. Any variations should be dealt with in the registered rules of the fund or in the code of conduct.
26. Sub-committees of the board may be established to exercise a specific oversight *responsibility* or to carry out, where the rules of the fund permit it, any board-delegated *responsibility*. Any such sub-committee should have an appropriate written mandate which sets out clearly its functions, scope and authority, as well as the criteria or membership requirements.
27. Clear terms of reference should be set by the board for the sub-committees which should be adhered to at all times. Sub-committees should operate within the set parameters.
28. The sub-committees appropriate for each fund will vary from fund to fund but may include, amongst others
 - 28.1. an audit and administration sub-committee;
 - 28.2. an investment sub-committee;
 - 28.3. a legal sub-committee;
 - 28.4. a communication and education sub-committee;

- 28.5. a risk benefits sub-committee dealing with death and disability benefits;
 - 28.6. an actuarial sub-committee in the case of a defined benefit fund.
29. Each sub-committee should be required to advise the board on risks relating to the functions to be performed by that sub-committee, and the process or controls necessary to mitigate that risk.

UNIT 3: Board Orientation and Education

- 30. New board members should, at the expense of the fund, post appointment and election, receive rigorous and comprehensive training on both the legislative and regulatory framework and governance principles in order to equip them to effectively carry out their functions as board members, and to enable them to minimise their risk of liability as well as to safeguard them against bad decision-making.
- 31. Board members should be educated on an ongoing basis about new matters relating to funds to ensure that they acquire and maintain an understanding of risk management, investment risks and strategies, benefit structures, legal issues, regulatory and compliance requirements, taxation, actuarial and reform issues. The cost of this information provision and training should be at the expense of the fund.
- 32. Training and education requirements for board members should be an ongoing process, with an emphasis placed on continuous and lifelong learning (this can be NQF aligned /SAQA approved).

UNIT 4: Board Assessment and Breach of Code of Conduct

- 33. The board, the principal officer and the sub-committees of the board should be subject to an appraisal of their performance at least once every year. The sub-committees of the board should also be subject to appraisal. The purpose of the appraisal is to assess the effectiveness of the board, the principal officer and the sub-committees, and to highlight where improvements should be implemented.
- 34. Where a board member breaches the fund's code of conduct or acts in contravention of any of the responsibilities imposed upon him or her then the board should take such action as it considers appropriate, after consideration of any argument presented in defence of the board member concerned. This may, should the rules of the fund permit, be in the form of, *inter alia*, declaring that such trustee should vacate office; that such trustee is suspended from office for such period or in respect of such function as the board may decide, and subject to any appropriate terms and conditions imposed by the board. The objective of action by the board against a trustee is to preserve the integrity of the board and its governance role. Action against a board member should not be solely driven by whether or not the breach gave rise to financial or other reputational prejudice being suffered by the fund or any other stakeholder. Each matter should be assessed on the facts and merits of the situation, and an appropriate form of discipline should be imposed.

INSERTED ANNEXURE A to PF130 from FSB website <here>

[NAME OF FUND]

("the fund")

CODE OF CONDUCT

PREAMBLE

1. We, the trustees and principal officer of the fund acknowledge that –
 - 1.1. The objects of the fund are to provide retirement, death and ill health benefits to or in respect of the fund's members and pensioners (being employees and retired employees of any employer participating in the fund), as well as their dependants (such members, pensioners and dependants being collectively referred to as "beneficiaries"). Such benefits are promised in terms of the rules of the fund.
 - 1.2. Whilst our primary duty is to ensure the solvency of the fund in order that the promised benefits of the fund may be paid out to the beneficiaries, we also consider ourselves to hold a position of trust and we therefore acknowledge further that -
 - 1.2.1. irrespective of whether any of us may be in the employment of X as the sponsor of the fund ("the sponsor") or may be an independent trustee, we each owe the same fiduciary duty to the fund and the beneficiaries;
 - 1.2.2. as trustees we are required to act independently, and in particular may not submit to influence by any party, whether the sponsor, an employer participating in the fund ("an employer"), any service provider or other, to act differently from that which the office of trustee requires us;
 - 1.2.3. we must avoid conflicts of interest.
 - 1.3. Our respective functions as trustees and principal officer require us not only to fulfil all the requirements imposed on us by law in the fulfilment of our duties, but also to ensure that the fund is governed by us in such a way as will –
 - 1.3.1. ensure that the benefits promised in terms of the rules are actually delivered;
 - 1.3.2. these benefits are optimal with minimal associated risk; and

1.3.3. the process of delivery of these benefits is credible and worthy of the trust of the beneficiaries, and can also be demonstrated to each employer, the sponsor and the Registrar of Pension Funds (“the Registrar”).

(“the governance purposes”)

1.4. We are accountable for our governance of the fund.

2. We accordingly bind ourselves to govern the fund to the best of our ability, both individually and collectively, and now set out how we intend to do this so that the beneficiaries, each employer, the sponsor, the Registrar and those service providers serving the fund can know and understand what we expect of ourselves and what we will require of the service providers of the fund in order to ensure that we achieve the governance purposes.

MANAGEMENT OF OURSELVES AS TRUSTEES AND PRINCIPAL OFFICER

3. We acknowledge that as trustees we are obliged to act jointly and we understand that if any of us comprise a minority in respect of a majority decision which is carried then the minority must respect the majority decision. As trustees, furthermore, we undertake to work together, notwithstanding that some of our number may be in the employment of the sponsor and some of our number may be independent trustees; and we undertake to trust each other and to be trustworthy.

4. We look to the chairperson of the trustees to lead us proactively to ensure that trustee meetings are run effectively, to ensure that sub-committees fulfil their responsibilities, to be responsible for communication with an employer or the sponsor on matters of interest to it, and to act as spokesperson of the fund where required.

5. We as trustees look to the principal officer for effective liaison with the service providers and the beneficiaries, being the repository of much of the institutional history of the fund and providing support to the chairperson and to us as trustees in their responsibilities. I as principal officer accept responsibility for the above and acknowledge that although I have no vote at trustee meetings I nevertheless am expected to make contributions to those meetings and to provide input particularly, in my compliance function, to the risk management responsibilities of the trustees.

6. We undertake

6.1. to record our acceptance of the responsibilities as trustee and principal officer in terms of both the legal duties we have and our commitment to the governance of the fund as reflected in this code, in terms of an acceptance of trust document attached hereto as “**A**”;

6.2. to agree a policy on gifts offered to any of us as trustees or principal officer on the lines of the document annexed hereto as “**B**” which may be revised from time to time by us;

6.3. to declare annually or more frequently as we may decide, as trustees, our interests on the lines of the document annexed hereto as “**C**” which may be revised from time to time.

7. We acknowledge as trustees that every trustee is entitled to receive such training and orientation, at the expense of the fund if necessary, as is necessary or desirable in order for that trustee to fulfil his or her responsibilities as such.

8. We undertake as trustees to ensure that our skills and learnings as trustees are, to the extent possible, passed on to those trustees who succeed us, and we undertake to be

available to provide information about what has happened during our tenure as trustees notwithstanding our vacation of office.

9. We acknowledge that information about the fund, the beneficiaries, each employer, the sponsor, the service providers and the proceedings of the trustees are confidential and may only be disclosed to a third party, unless there is a contrary duty in law, in such manner and through such person as we as trustees may agree.
10. We undertake to submit ourselves, individually and collectively, to such assessment as is appropriate, acknowledging that the purpose of any such assessment is to ascertain our performance, particularly in fulfilling our governance purposes.
11. We acknowledge that each of us as a trustee may be sanctioned, whether in the form of censure, suspension subject to any terms determined by the other trustees, or expulsion from office, for any breach of this code; and that any such sanction may only be imposed after that trustee accused of such breach has been furnished with the opportunity to defend himself or herself.

MANAGEMENT OF THE BUSINESS OF THE FUND

12. We acknowledge that we must exercise an oversight responsibility over the administration of the fund, in particular those service providers involved in providing services to the fund. In particular we undertake to ensure that every service provider reports appropriately and timeously to us, that the contractual relationships with service providers are on terms which are not disadvantageous to the fund and are reviewed periodically; that there is a periodic revision of the rules; and that there is a periodic review and assessment of the service providers of the fund.
13. We undertake to ensure, as far as is possible, that our service providers avoid or remove any conflicts of interest.
14. We acknowledge as trustees that we do not have all the skills necessary for the proper administration of the fund and undertake to seek expert advice, which we will interrogate and test, in order to ensure that the benefits of the fund are optimal and the risks associated with that minimal.
15. We undertake as trustees to have in place a risk management policy, which we on request will be available to any employer, the sponsor, and any beneficiary. This risk management policy must deal with the assessment and management of each type of risk to which the fund is exposed, including but without being limited to, accounting and administrative risk, investment risk and legal risk. As part of this we undertake as trustees to ensure that there are appropriate rights of recourse against our service providers and that appropriate insurance cover is enjoyed by the fund.
16. We undertake as trustees to devise an investment policy which is appropriate for the needs of the fund and, in particular, entails an acceptable level of risk and is appropriate to meet the benefits promised by the fund.

MANAGEMENT OF RELATIONSHIPS

17. We undertake as trustees to communicate regularly with relevant and clear information about the fund to every beneficiary. We understand the importance of such communication for each beneficiary and that good communication about the fund, particularly the governance arrangements in place, plays an important role in the promotion of the trust we wish the beneficiaries to have in us.
18. We undertake to deal with any communication from, query or complaint by any beneficiary, any employer, the sponsor or the Registrar timeously, thoroughly and with respect.

19. We acknowledge that the fund owes a duty of good faith to the sponsor, but that this duty does not extend to ensuring that the sponsor's business proposition in respect of the fund is viable.
20. We acknowledge that the fund owes a duty of good faith to each employer which has an interest in the governance of the fund. Accordingly, we undertake as trustees to communicate on matters to an employer which are relevant to it or on which it may request information; and we as trustees undertake to be available to discuss with each employer any aspect of the fund, the fund benefits, the fund investment arrangements, the fund operations and the fund governance arrangements generally in which an employer may express an interest. We acknowledge too that the fund should not intrude on an employer / employee relationship which exists between an employer and those of its employees who are members of the fund. We look also to the employer to support the fund in certain of its responsibilities such as in the research necessary for the proper determination of any benefit payable on the death of a beneficiary, to the extent that an employer is able to provide such support.
21. We commit the fund to a constructive, co-operative and open relationship with the Registrar and any other regulatory authority, including SARS, with which the fund may have dealings.

The date of approval by the trustees of the fund of this code is _____.

CHAIRPERSON OF THE FUND
(BLOCK LETTERS)

PRINT NAME

(NAME OF FUND)

“A”

ACCEPTANCE OF APPOINTMENT

as trustee of the

[NAME OF FUND]

(“the fund”)

In respect of my appointment as a trustee of the above fund for the period from to I declare that -

1. I accept the appointment of trustee of the above fund. I appreciate the responsibilities and duties attaching to the office of trustee of a retirement fund, in particular the fiduciary nature of those responsibilities.
2. I undertake to abide by the rules of each fund, any decision of the board of trustees of the fund, any policy document or practice note issued by the fund (in particular any code of conduct, investment policy statement and any other policy document) as determined by the board of trustees from time to time. I acknowledge that I may not divulge any confidential information about the fund, any employer, the sponsor, service provider or any beneficiary of the fund unless such information is in the public domain or I am authorised by the party to whom such information relates to release it.
3. I am not disqualified from acting as trustee in terms of the rules or any law.
4. I understand and accept that my ongoing competence and performance as trustee will be evaluated in a frequency and manner to be prescribed by the board of trustees of the fund from time to time.
5. I understand that I can be removed as a trustee of the fund in the manner prescribed by the rules of the fund and that I can resign as a trustee by written notice of resignation to the chairperson of the trustees.
6. I certify as correct the details of my personal information, experience and any interests in the fund, the employer, the administrator, any service provider to the fund and my appointment to any other retirement funds that I have recorded in the *Trustee Details and Declaration of Interests* forms attached.

I undertake to provide the fund and the administrator with any changes to these details from time to time.

Signed at:

Trustee name:

Trustee signature Date:

[NAME OF FUND]

("the fund")

DETAILS OF TRUSTEE

Surname: _____

Full Names: _____

ID Number: _____

Telephone Numbers:

Work: _____

Home: _____

Cell: _____

Email Address: _____

Residential Address: _____

Employer: _____

Employment Address: _____

I am [delete which is not applicable]:

- employed by the sponsor
- employer appointed trustee (if not exempted)
- member or pensioner elected trustee (if not exempted)
- an independent trustee

“B”

[NAME OF FUND]

(“the fund”)

BOARD OF TRUSTEES POLICY ON GIFTS

1. This document sets out the policy of the fund applicable to each trustee and the principal officer in respect of any gift received by or offered to him or her by virtue of holding his or her office as trustee. For the purpose of this document “gift” means any property of whatsoever nature and any benefit, direct or indirect, which has a financial value; but does not include agreed remuneration for services to the fund. A gift may include but is not limited to –
 - a movable item, such as a book or bottle of wine;
 - the payment of the costs, including travelling costs, to attend a conference, whether or not convened by a service provider to the fund;
 - an invitation to attend any sporting, social or recreational event.

For the purposes of this policy, the payment by the sponsor, or any company associated with the sponsor, of the costs, including travelling and subsistence costs, of any trustee to attend a conference or seminar related in any way to the retirement fund industry does not constitute a gift.

2. The purpose of this policy is to determine appropriate conduct in relation to any gift offered to or received by any trustee or the principal officer. In this way the governance of the fund is intended to be demonstrated as one of integrity, independence and accountability.
3. Any trustee who is offered a gift must notify in writing that offer to the other trustees before acceptance. A gift may only be accepted by a trustee if so decided by the board of trustees by resolution. Only thereafter may the gift be accepted by the trustee.
4. The board of trustees may from time to time determine that any gift below a certain monetary amount need not require a resolution of the board of trustees in order to be accepted. Any gift less than this amount must, nevertheless, be disclosed to the board of trustees at the first trustee meeting after its receipt. It is recorded that at the date of approval by the board of trustees of this policy it was determined that any gift below R100-00 (one hundred Rand) does not require a resolution of the board of trustees in order to be accepted.
5. Non-compliance with this policy by a trustee constitutes a breach of his or her duties to the fund and renders that trustee liable to such sanction as the trustees may consider appropriate. This sanction may include, at the discretion of the board of trustees, the forfeiture of the gift to the fund or its financial equivalent, as well as the suspension for a limited period of time or the expulsion of the trustee from the board of trustees.

“C”

[NAME OF FUND]

(“the fund”)

TRUSTEES DECLARATION OF INTERESTS

1. I acknowledge that the purpose of this declaration is for me as a trustee of the fund to declare my interest in any matter or entity which may compromise the impartiality and independence I am required to possess, to demonstrate and to be seen to demonstrate as trustee.
2. For the purposes of this declaration the following words or phrases have the meanings indicated –
 - 2.1. “financial interest” means any shares held by me directly or indirectly (an indirect shareholding includes one held through a trust, company or legal entity controlled by me or members of my immediate family or, in respect of a trust, of which I or members of my immediate family are the primary beneficiaries), but excludes any shareholding held through a collective investment scheme;
 - 2.2. “independent trustee” means a trustee of a retirement fund who is not appointed by the employer participating in that fund or elected by the members of that fund;
 - 2.3. “last financial year” means the last day of the month of February preceding the date of signature of this declaration;
 - 2.4. “professional fees” means those fees in respect of any type of work, including acting as a trustee of a retirement fund, in or related to the retirement fund industry including and without being limited thereto, for services to asset managers, administrators, consulting actuaries, life insurers and retirement funds;
 - 2.5. “service provider” means an administrator, auditor, provider of risk benefits, provider of short term insurance, brokerage or any other entity contracted by the fund to provide any services which, for this purpose, includes the management of any assets of the fund whether in the form of a mandate or an insurance policy.
 - 2.6. “sponsor” means (name of insurer, asset manager, administrator or other entity which sponsors the umbrella fund, preservation fund or RA fund), and any subsidiary of it (as understood in terms of the Companies Act, No. 61 of 1973);
3. The following are retirement funds, apart from the fund, sponsored by the sponsor of which I am an independent trustee –
4. The proportion of my total professional fees billed for acting as an independent trustee over the most recent financial year of the funds listed in 3 above (including the fund) was
(express as percentage).

5. Over the most recent financial year the following is the proportion of my total professional fees for services to the sponsor other than in respect of acting as an independent trustee of the fund and the funds referred to in 3 above (express as percentage).
6. If I am a director of or partner of a professional firm, does my firm provide any services on an ongoing basis to the sponsor. Yes/No (circle which is applicable).
 - 6.1. If the above answer is Yes, is my firm the only provider of such services – Yes / No (circle which is applicable).
 - 6.2. Or the predominant provider of such services – Yes / No (circle which is applicable).
7. The following are the retirement funds of which I am an independent trustee which are not sponsored by the sponsor.
8. I have / have not (circle which is applicable) been permanently employed by the sponsor, and if I have been permanently employed by the sponsor that employment terminated on (insert date).
9. I acknowledge that as trustee –
 - 9.1. the incorrect incompleteness of this may constitute a breach of the code of conduct of the fund;
 - 9.2. my co-trustees may require more information about any aspect of the declaration made by me in terms hereof.
10. I confirm that there is no other fact which to the best of my knowledge compromises my ability to act independently and impartially as a trustee.

DATED AT _____ on this _____ day of _____
200

(Insert Name)
Trustee

Units 5 to 12 for IT Consultant ONLY

GOVERNANCE BY THE BOARD OF THE OPERATIONS OF THE FUND

UNIT 5: Internal Controls/ Governance Mechanisms

35. The primary function of the board in relation to the business of a fund is to ensure that it (the board) exercises a rigorous oversight function. There should be a clear identification and assignment of operational responsibilities, either to persons with appropriate skills employed by the fund (where the fund is privately-administered), or by way of a written agreement to a licensed administrator or long-term insurer (where the fund is underwritten).
36. For the board to exercise its oversight role properly, those to whom functions are delegated should be required to report back regularly on such delegated functions and with sufficient and relevant information to enable board to make an informed performance assessment.
37. The board should ensure that there is adherence to and compliance with all statutory and regulatory requirements. In particular, the board should appreciate the rights and duties of those involved in the operation of the fund, others associated with the fund such as the employer and sponsor, as well as the members and beneficiaries of a fund.
38. In addition, the oversight *responsibility* of the board requires that there should be –
 - 38.1. a regular assessment of the performance of the persons and entities involved in the operation of the fund in terms of service level agreements, mandates, performance contracts, etc.;
 - 38.2. a regular review of services and fees and all costs associated with the operation of the fund in order to ensure that they are appropriate;
 - 38.3. a regular review, preferably with the assistance of independent external advisers, of the information processes, operational software systems, and accounting and financial reporting systems involved in the operation of the fund;
 - 38.4. the monitoring and resolution of actual, potential or perceived conflicts of interest amongst those involved in the operation of the fund;
 - 38.5. the protection of confidential information of the fund;
 - 38.6. regular review of compliance with regulatory and statutory requirements of the fund.

UNIT 6: Expert Advisors

39. Board members are not obliged to have all the expert skills necessary for the day-to-day operation of a fund. It is reasonable for the board to engage professional accounting, actuarial, investment, legal and other experts for advice on issues which are the *responsibility* of the board, and to pay the professionals involved appropriately for that advice. However, the expert advice or opinions obtained by the board should be considered by the board and assessed independently and the board should always be free, to procure a second opinion where it is not comfortable with the advice that it has received.

40. The board should only make use of licensed/ registered/ accredited/ approved entities or professional advisors where regulators and/or independent standard setting bodies can attest to their fitness and propriety.
41. The function of an actuary in a defined benefit arrangement is of particular importance, and the board should appreciate the issues around the different assumptions and methodologies which are available for an actuary to use.
42. The board should satisfy itself that any expert advice obtained is independently given. Where the professional gives expert advice in respect of a service provider or the employer or sponsor to the fund then the board should satisfy itself that such advice is not compromised by the relationship of that professional or his or her firm to that service provider, employer or sponsor as the case may be.
43. The appointment of an expert adviser should be made by the board itself, even where it acts on the advice of another service provider, so that the board itself interacts and communicates with that external expert adviser that the board itself has appointed.

UNIT 7: Risk Management

44. The management of risk in a fund is a vital component of the governance of a fund. Every fund should have in place a risk management policy which should be reviewed annually and should include, *inter alia*: –
 - 44.1. the identification of risks facing the fund;
 - 44.2. the assessment of the impact of each such risk to the fund;
 - 44.3. the process or controls necessary to reduce the impact of key risks;
 - 44.4. the monitoring of the risk process or controls to ensure that they are appropriate; and
 - 44.5. the communication to the members and the stakeholders of the fund's risk management policy, including the identification of the key risks and the processes or controls in place to manage them. This may be outlined in the annual financial statements of a fund.
45. The types of risk will vary according to the type of fund. Thus, in a defined benefit fund, there will be risks associated with the actuarial valuation (such as the solvency ratio, the longevity assumptions and the post retirement interest rate) which may not be found in a defined contribution fund. A common type of risk found in categories of funds may have different consequences because of the nature of those funds; for example, the investment risk in a defined benefit fund will be different from the investment risk in a defined contribution fund, and the administration risk in a self-administered fund may be different from the more complex administration risks found in umbrella funds. It is important is that each type of risk is identified in the fund according to the nature of that fund and an applicable process or control put in place to manage it.
46. The risks to be identified should not be limited to those which have a financial consequence, but should include risks which relate to the governance of the fund and which may jeopardise the governance structure. Poor communication by the fund may not have a financial consequence but may impair the credibility of the provision of the benefits by the fund and the administration of the fund. Such risks which do not have a financial consequence are equally important in a fund's risk management strategy.
47. A fund is not expected to micro-manage the functions delegated to service providers, but those functions should, when delegated, contain sufficient detail to ensure that the service provider understands what is expected by the board. There should also be a reasonable right

of recourse in the event that there is any breach of the delegated functions by the service provider.

48. In terms of pensions law a fund is required to take out fidelity cover. The purpose of this cover is to indemnify the fund against any loss suffered by the fund which cannot otherwise be recovered. The terms of this cover and the quantum should be carefully considered by the board to ensure that it is appropriate for the fund; where necessary, expert advice should be obtained in this regard. Such cover should include loss arising from negligence. Members of the board themselves should have indemnity insurance provided by the fund, or an indemnity from the sponsor of the fund. The board should also ensure that each service provider has adequate malpractice cover in the form of professional indemnity and fidelity guarantee insurance so that the fund's right of recourse against that service provider, where required to be invoked, is safeguarded.

UNIT 8: The Investment Performance of the Fund Assets

49. The investment performance of the fund assets is the most important factor in determining whether the fund will be able to deliver on the retirement benefits (in a defined benefit fund) or whether there will be a sufficient amount accumulated (in a defined contribution fund) for an adequate replacement of income. The proper management of the investments of the fund is a critically important component of the governance of a fund.
50. It is important that the board ensures that the mandates given to service providers clearly define the board's expectations and reporting requirements relating to the performance of the investments. The board should therefore not endorse mandates or agreements that are vague or ambiguous. Any contractual arrangement between a fund and an investment manager should set out clearly the benchmarks against which performance will be measured. Any contract should be on such terms and conditions that are acceptable to the fund, and may require independent legal advice being given to the fund in that regard.
51. A fund investment policy statement, (IPS) should be communicated to stakeholders, and reviewed annually (when considering the financial statements) to ensure it remains appropriate in terms of the member-profile and needs of the fund. The IPS should contain the following minimum information:-
 - 51.1 who the fund's investment advisers are;
 - 51.2 where applicable, who the custodian of the investments are;
 - 51.3 whether the fund has a socially *responsible* investment policy, and its definition of such investment type;
 - 51.4 whether the investments of the fund are in the form an insurance policy or a segregated mandate, and the reasons therefor;
 - 51.5 what the targeted performance benchmarks are in respect of each asset manager and asset class held by the fund, and what the previous year's actual performance was in relation to the fund's benchmarks, as well as the tracking error;
 - 51.6 the level of risk attributed to each asset class and asset manager;
 - 51.7 whether or not the fund exercises its ownership rights in respect of investments held by it (and if so, what the proxy voting policy is) and, if not, the reasons therefor.
52. Where a fund has member investment choice, the board is responsible for ensuring that the investment portfolios from which members may make their selection is appropriate for the

profile of the fund membership; if there is a default portfolio, it must be reviewed regularly for appropriateness in relation to the membership profile of the fund.

53. The board should not permit an investment arrangement to exist where the fund may not invest outside the investment offerings of the sponsor or any subsidiary or associated entity, other than in the case of preservation fund or retirement annuity fund, where such an investment arrangement is permissible. The rules of the fund, pensions law and applicable tax laws should be adhered to in respect of transfers. The board should exercise special care in relation to transfers to ensure that the rights of members are protected.
54. Where there is a balance of cost obligation owed by the employer (typically in a defined benefit fund) then the board should be mindful of the risk to the employer of any investment decision it makes. In particular, a board may not use the balance of cost obligation as an excuse to make investments of a nature which would not otherwise have been made had the balance of cost obligation not existed.
55. The appointment of the custodian of the fund investments should be made directly by the fund to enable the board to have direct access to the custodian information about the fund investments. It is inappropriate for the fund's custodian arrangement to be set up between the custodian and the fund's investment adviser alone. It is the board's sole *responsibility* to determine the terms of the relationship between the custodian and the fund. Similarly, the board should have direct access to all office bearers including the fund's auditors, actuary/ valuator and other appointed experts.

INSERTED ANNEXURE B TO PF 130 <hereunder>

Annexure B to PF 130

Good Governance Guidelines on an Investment Policy Statement (IPS)

This guideline sets out the following:

- The purpose and scope of the IPS;
- Preparing the IPS;
- Essential elements of the IPS;
- Risk management;
- Voting rights;
- Asset Manager Mandates, and
- Communication

PURPOSE AND SCOPE OF THE IPS GUIDELINES

- 1 Investments and the allocation of surplus funds should be made in the best interest of members and beneficiaries of the fund. There should be impartiality between different classes of members, and beneficiaries and those of the employer (where it has obligations to the fund). Boards have a fiduciary duty to deal with the investments with due care, diligence and in good faith and ensure that it complies with the rules of the fund, pensions law, the Financial Institutions (Protection of Funds Act) and all other applicable laws.
- 2 These guidelines contain the minimum standards and the issues that boards should consider when establishing a written IPS. The guidelines should be adapted by each board to suit their particular obligations, objectives and all other factors that may affect the solvency and funding

of their fund and its ability to meet its financial obligations. The board should be prepared to explain any deviations from the IPS.

- 3 The guidelines are intended to serve as a guide only without intending to limit the care that boards are expected to take in the performance of their duties. The IPS should be based on the standards that a reasonable person would apply to the investment portfolio of a fund – the “prudent person portfolio approach”.
- 4 It is recommended that some of the guidelines set out herein should be included in the investment manager mandates rather than the IPS itself.
- 5 When required, the board must be prepared to deliver a copy of the IPS to the fund’s actuary and/or the Financial Services Board.

PREPARING THE IPS

- 6 In the case of established pension funds, consideration must be given to existent investments when formulating the IPS. Furthermore, additional considerations will have to be applied when dealing with specific funds.

6.1 *Defined Benefit Funds:*

The board should consider the following to properly understand the obligations of the fund, namely:

- 6.1.1 Whether contributions are to be increased to keep pace with the cost of living;
- 6.1.2 Whether the pension formula adjusts to increases in salaries over time or whether such increases need to be granted to keep the formula current;
- 6.1.3 How fund obligations are spread amongst the categories of members and former members, and, within these categories, by age and time to retirement;
- 6.1.4 Whether changes in employment levels or conditions will change patterns of retirement;
- 6.1.5 Important ancillary benefits contingent on full or partial retirement;
- 6.1.6 Any planned changes to the fund.

In addition, factors relating to solvency ratios and the maturity of the fund as set out more fully below, must also be taken into consideration.

6.2 *Defined Contribution Funds:*

In this instance, the fund may appear to discharge its investment obligations by paying out contributions accumulated in beneficiaries’ accounts along with investment returns, even though they may be low. However, it is recommended that the following factors also be taken into account, namely the:

- 6.2.1 Needs and reasonable benefit expectation of the beneficiaries;
- 6.2.2 Mix of members and the related growth and risk tolerance levels;
- 6.2.3 Variation in risk tolerance levels of members of the same age group;
- 6.2.4 Ability of beneficiaries to choose investment options – in this regard, the board should consider providing ongoing information and training to beneficiaries to enable them to make informed decisions.

In addition, the board should monitor “default” accounts for beneficiaries who have not indicated an investment option, the participation rate and the investments selected by

beneficiaries. The purpose of such monitoring being to assess whether changes may be required in communication and/or education programs.

6.3 *Investment Policy and Procedures:*

In order to be able to determine the fund's investment policy, it is essential that the board has first identified the profile of its beneficiaries. This will enable the board to identify what portion of funds will be required for short, medium and long term investments and the risk profile attached to each category of beneficiaries e.g. those retiring in the short term will require low risk, high liquidity. As this is an essential element of determining the investment policy, the board should, where appropriate, obtain the advice and guidance of independent consultants and/or actuaries.

In determining the appropriate IPS, boards should consider the:

- 6.3.1 Current investments;
 - 6.3.2 Degree of risk tolerance they wish to sustain;
 - 6.3.3 Volatility of contributions;
 - 6.3.4 Current and future liabilities of the fund;
 - 6.3.5 Structure of the pension plan (e.g. defined benefit/contribution pension funds or defined contribution provident funds);
 - 6.3.6 Current financial status of the fund;
 - 6.3.7 Liquidity and cash flow requirements;
 - 6.3.8 Maturity of the fund ; and
 - 6.3.9 Profiles of the beneficiaries.
- 7 Taking a holistic view of these considerations into account, together with the purpose and objectives of the fund, the board will then be able to determine the appropriate mix of assets to meet the fund's obligations. In arriving at a decision, the board will have to obtain expert opinion and advice. In this regard, care must be taken to avoid a one-sided view e.g. an actuary might have a good understanding of a fund's present and future liabilities, but might not be an expert on investments, whilst on the other hand, an investment manager may only have expertise on a limited class of investments. Therefore, care must be taken that the advice obtained is free from conflicts of interest.
- 8 The same cautionary applies to setting effective performance appraisals e.g. an asset manager might wish to constrain effective performance appraisal levels and the vendor of a specific financial product may overlook the disclosure of commissions to offset fees for service.
- 9 The purpose of formulating an investment policy is to:
- 9.1 Communicate the investment philosophy to the fund managers and beneficiaries;
 - 9.2 Describe the investment objectives and the overall risk philosophy;
 - 9.3 Define how investment managers will be selected, remunerated and, where necessary, replaced in a manner that encourages compliance to the IPS goals and objectives;
 - 9.4 Communicate the investment strategy for evaluation purposes;
 - 9.5 Identify those involved in the investment process and the expectations.

- 10 In formulating the IPS, the board must address the following issues, in conjunction with legislative and regulatory compliance, namely:
 - 10.1 Categories of investments;
 - 10.2 Diversification of investments to mitigate risk;
 - 10.3 The mix of assets and the expected rate of return;
 - 10.4 The liquidity requirements;
 - 10.5 Voting rights attached to the investments;
 - 10.6 Valuation procedures for investments not publicly traded;
 - 10.7 Related party transactions.

- 11 All investments must conform to the requirements of Regulation 28 and/or any other statutory and/or regulatory requirements imposed from time to time. The IPS, along with the financial statements, should be reviewed at least annually and there should be procedures in place to monitor compliance with the same. Procedures should be in place to identify responsibilities and accountability, describe the processes for recommending, approving and implementing investment decisions and formulating the frequency of reporting and monitoring of performance. Similarly, a procedure should be formulated setting out clearly how the asset managers will be monitored, rewarded, or replaced. The implementation of these procedures should be carried out by people who are suitably skilled, whether they are officers of the fund or sub-committees of the board or under contract. Procedures should be formulated for the process of valuing investments that are not regularly traded as well as the fund's exposure to fluctuations in interest rates, foreign exchange, inflation and market prices.

- 12 For monitoring and ease of reference purposes, boards should maintain records of the fund's investment portfolio to enable analysis of:
 - 12.1 Asset quality and diversification;
 - 12.2 Interest rate and any maturity mismatching;
 - 12.3 Diversification of income sources;
 - 12.4 A comparison of current assets measured against the IPS limits.

- 13 Furthermore, areas of potential conflict of interest should be identified and recommendations made as to how those tasked with the investment of funds are to deal with the same as outlined in the fund's code of conduct and other policies.

ESSENTIAL ELEMENTS OF THE IPS

- 14 All IPS should be reviewed at least annually to ensure that they take into account any changes in economic conditions or obligations of the fund. Taking the above factors into account, it is recommended that the below mentioned elements be included in the IPS:

14.1 Asset mix and rate of return expectations:

The IPS should stipulate the:

- Expected rate of return of the portfolio;
- Anticipated volatility of the rate, setting parameters;

- Time frame for the expected returns; and
- Monitoring of performance against the stated expectations (linked to the stated expectations should be an explanation of the action that the board will take if the stipulated targets are not met).

Examples of the rate of return expectations are the following:

- A real rate of return of “x” percent over a given period; or
- A nominal rate of return; or
- A rate of return over an agreed benchmark portfolio.

14.2 *Categories of Investments:*

- In order to protect the fund from arbitrary investment decisions and/or investments that may be in conflict with the fund’s risk profile, limits should be placed on the range of authorized investments. Such investments should be defined taking into account the building of a portfolio that meets the needs of the fund and avoids the concentration of investments in any particular market sector.

- Depending on the risk profile of the fund, limitations could also be placed on the quality of the assets with stipulations of the action required if such assets become downgraded to a quality below that stated in the IPS.

- In the event that the use of derivatives by asset managers are to be authorized, and provided such investments are allowed in terms of the fund rules and are within regulatory or statutory limitations, the investment in derivatives should be properly and clearly regulated. Should they decide to permit this form of investment, boards should have a clear understanding of the use and risks of derivatives and how they will be measured. Such regulations should include stipulations relating to:

- A list of acceptable derivative instruments;
 - The proportion of assets that may be invested;
 - The purpose for which they are to be used (hedging, index replication etc.);
 - The managers authorized to use derivatives and the limits placed on them;
 - Where the derivative products are to be obtained; and
 - How over-the-counter products are to be managed.

14.3 *Diversification:*

In principle, investment risks can be reduced through investing in diverse asset types, industries and geographic regions. However, diversification usually carries a cost in the form of transaction fees, custody costs etc as well as potentially lower returns. Therefore, a balance between the mitigation of risk and the related costs must be maintained. Accordingly the degree of diversification will be determined by the fund’s size, risk profile and the inherent risk of the particular investment.

One way to achieve diversification at low costs is to invest in investment vehicles that have been formed to hold a diverse portfolio. Selection of the appropriate vehicle should not only be on the basis of past performance and track record but also on the synergies between the policies of the particular fund and those set out in the IPS.

14.4 *Liquidity requirements:*

As mentioned above, investments should be made taking into account the fund’s cash flow needs in the coming year to avoid having to liquidate medium or long term investments to

cover short term requirements. By the same token, it might not be necessary for a portfolio to hold unnecessary amounts of cash or low yielding liquid assets. Accordingly the fund should have a clear idea of what its cash flow requirements will be.

14.5 *Pledging and borrowing of assets:*

It might be preferable for funds to borrow against assets in order to meet short term cash flow needs. Similarly it may be necessary for a fund to pledge assets for the purposes in engaging in futures contracts. However, in order to protect the fund from placing the investments at risk, clear limits and procedures should be established for such borrowing or pledging to occur and these should be closely monitored. Furthermore, it should be established whether such activities are authorized in terms of the fund's rules or subject to any regulatory or statutory restrictions.

CAVEAT: Accordingly extreme care and caution should be taken when considering the possibility of such activities.

14.6 *Lending against the fund:*

To the extent that it is permitted by the rules and statutory or regulatory restrictions, the IPS should clearly set out the circumstances under which funds may be lent against the fund. Such policies and procedures should set out:

- The circumstances under which the lending may occur;
- Who is authorized to commit the fund to the loan and under what limits;
- The maximum exposure of the fund in aggregate;
- The interest rate and collateral required; and
- Margin requirements.

Accordingly extreme care and caution should be taken when considering the possibility of such activities.

14.7 *Management fees and compensation:*

Management fees, custodial fees and transaction costs must be taken into account when considering asset managers. The board must decide between active or passive asset management and determine whether the concomitant costs of active management are justified by the returns achieved. In order to make this assessment of performance over a given period, it may be useful to secure expert advice, however, care should be taken to avoid a conflict of interests.

Payment of fees should be linked to clearly defined responsibilities and those tasked with particular functions should be accountable. There should be mechanisms in place to ensure proper monitoring including the relevant checks and balances to alert the board to any significant losses and deviations from authorised policy.

The remuneration of asset managers must not encourage deviation from the mandate assigned to them nor encourage unethical behaviour. Costs and fees paid by the fund to asset managers and administrators should be subject to full disclosure and transparency and communicated to the beneficiaries.

14.8 *Socially Responsible Investment:*

The issue of socially responsible investment often raises the question of whether such investments offer the best returns on the investment. However, there are various ways to achieve such investments. The first is to invest in companies that meet certain prescribed

criteria, whilst the other is, through shareholder activism, to influence the behaviour of companies in which funds are already invested to encourage them to meet corporate governance and good citizenship best practice standards.

The primary obligation of boards is to provide optimum returns for its beneficiaries. However, once these returns have been met, funds should consider socially responsible investments. Boards should consider how shareholder activism can be applied to promote good governance and citizenship in companies in which their funds are already invested. Such activities may actually enhance the performance of the companies and therefore the returns to the fund.

It is recommended that boards apply their minds to formulating a suitable policy regarding such investments as well as incorporating shareholder activism into their investment mandates. Examples of how this can be done are elaborated in more detail below.

RISK MANGEMENT

- 15 There will always be an element of risk in the investments of a fund. Furthermore, the risk tolerance level of a fund will be influenced by factors such as the age profile of its beneficiaries. The board's responsibility is to manage and, where possible, mitigate the risks to which the fund is exposed. For it to perform this function effectively it needs to be aware of the types of risk to which a fund can be exposed. A separate risk assessment conducted by an independent expert may be required by the board, from time to time to assess the effectiveness of governance structures, mandates, terms of reference used, etc.

VOTING RIGHTS

- 16 It has been argued that the voting rights attached to shares of the companies in which boards are invested should be considered an asset of the fund. Accordingly, the board would be expected to apply the same fiduciary care and consideration to this asset as it does to the financial investments it makes. Indeed, there is an inclination internationally to require boards to be more proactive in ensuring that the voting rights are utilised effectively by the asset managers in accordance with the shareholder activism obligations of the board.
- 17 In order to fulfil this obligation, and in accordance with the recommendations of King II, the board should formulate and develop appropriate voting policies and incorporate these in their mandates to the asset managers including the monitoring and reporting of the same. Such policy should also be disclosed to the beneficiaries along with the steps taken by the board to monitor the effective implementation of the same by the asset managers. More in this regard is incorporated under the asset manager mandate recommendations detailed below.

RECOMMENDATIONS FOR INCLUSION IN ASSET MANGEMENT MANDATES

- 18 The relevant portions of the IPS should be included in the mandates to asset managers. This will include the category of investments, risk profile, diversification policies etc. as stipulated above. In addition, it will contain the expected rate of return and the actions to be taken in the event of the said managers not meeting performance targets. Furthermore, in order for the board to effectively monitor the fund's performance, the reporting frequency and performance targets should be clearly spelt out.
- 19 In addition, and in order to ensure that the asset managers practice the same corporate governance standards and best practices that s are expected to maintain, and in order to met their fiduciary obligations relating to voting and shareholder activism issues, the mandates

should also require the asset managers to report on the following matters, as recommended by the International Corporate Governance Network, namely:

- 19.1 The corporate governance policies of the asset managers detailing how they are applied in investment policies;
- 19.2 The voting guidelines followed by the asset managers and how these are aligned to the policies formulated by the board;
- 19.3 Information on the companies in which the fund's assets have been invested and the relevant percentages;
- 19.4 An explanation of actions taken by the asset managers in important matters;
- 19.5 An explanation how the asset managers monitor, measure and review the companies in which they are invested in accordance with stated policies and guidelines;
- 19.6 A summary of voting records indicating the percentages voted and whether the votes were cast for or against management as well as full records in important matters;
- 19.7 The resources allocated by the asset managers to execute corporate governance policies;
- 19.8 Where no resources have been applied, and explanation how they have "weighed the various arguments coming to this decision and an indication of what developments would make them change their decision."
- 19.9 Details of any conflicts of interests in companies in which they are invested;
- 19.10 A description of procedures they have developed to deal with the stated conflicts;
- 19.11 Details of agents to whom they have outsourced their responsibilities and an explanation of how these agents are monitored to ensure governance policies are properly implemented.

This information should be reported to the board at least annually to enable the board in turn to report meaningfully to the beneficiaries on how it has applied and monitored its governance responsibilities.

COMMUNICATION:

20 *Monitoring and reporting on IPS:-*

The IPS should be reviewed regularly to ensure that it continues to meet the objectives of the fund and any deviations or changes should be explained to the beneficiaries.

Effective and regular communication between the board, the beneficiaries and the asset managers is essential, not only for the purposes of transparency and disclosure, but also to establish proper and regular monitoring of the fund performance, adherence to the terms of the mandate and the IPS.

The IPS should be disclosed to fund beneficiaries, investment managers and, where required, to the relevant regulatory authorities.

There should be regular, reporting to the beneficiaries, preferably quarterly, in a manner and a form which is easily understood, on relevant performance, risk/return and fund matters especially relating to any changes, that the might deem appropriate.

Refer to the relevant guidance issued by the Registrar from time to time which sets out the minimum disclosure to beneficiaries and the frequency thereof.

MANAGEMENT OF STAKEHOLDER RELATIONSHIPS

UNIT 9: Communication and Access to Information

56. Board members should have unfettered access to all relevant information relating to the fund to enable them to make informed decisions.
57. All information about the fund is confidential and may not be released to any person unless such person has a lawful right to such information, such as the rights of members to obtain the registered rules of the fund, actuarial valuations and audited financial statements. In particular, no person, other than board members and service providers, should have access to minutes of board meetings and membership details unless such information is required for a lawful purpose. The board should not, however, be obstructive in supplying information when the person requesting it has a lawful right to access such information.
58. The information about a fund, its membership and investments belongs 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 the relationship with that service provider be terminated.
59. A Communication Policy should be established for the disclosure of fund information to members and beneficiaries. Cognisance should be taken of the Registrar's prescribed minimum disclosure requirements to members and beneficiaries. Other information may relate to the fund's investment policy statement, cash flow, the fund membership details, and any other information which the board considers appropriate, relevant or useful in order to carry out its functions. Such communication should be appropriate, timely, accurate, complete, consistent, cost-effective, useful, comprehensible and accessible. Communication to members and beneficiaries should be informative, *transparent* and *fair* and display *accountability*. This should include information in respect of the operations, administration and investments of the fund.

It is recommended that a Communication Policy should include (but is not restricted) to the following:

Operating activities:

- 59.1 Benefit calculations, method and timing of benefit payments;
- 59.2 Changes to the rules of the fund;
- 59.3 Important changes to regulatory requirements.

Funding activities:

- 59.4 Financial data and extracts from the annual financial statements;
 - 59.5 Funding status and funding method of the fund;
 - 59.6 Changes in investment strategy;
 - 59.7 Fund return and measurement against benchmarks;
 - 59.8 Name and contact details of the administrator
60. In funds that give members the option of individual investment choice, the inherent risks should be disclosed

UNIT 10: Members and Beneficiaries (protection of rights)

61. The board should communicate aspects of the operation of the fund, including the performance of the fund's investments, which are of relevance to members and which will assist the membership of the fund to assess the credibility and trustworthiness of the administration of the fund and the delivery of benefits. The fund should establish a communication policy reflecting the board's commitment to this and other aspects of disclosure decided by the board, which should be made available to the membership of the fund.
62. All communication with members, beneficiaries and the stakeholders should be responded to promptly by or on behalf of the board and with thoroughness and respect. In particular, complaints by members or any other person, which are directed to the fund, should be treated seriously at least and noted by the board.
63. Where a fund offers member investment choice, the details of the investments in respect of which members may make an election should be described setting out the severity of any associated risk and the performance benchmarks, as well as the underlying type of investments. Members should be able to make an informed decision from such information. Members should also be reminded periodically of the need to review the investment choices made by them. In a defined contribution arrangement with individual investment choice, it should be made clear that the member bears the investment risk. In certain cases the fund may require that basic training be provided by the fund to ensure that the members understand the operations of the fund and investments. The fund should also communicate to stakeholders any Pension Fund Adjudicator determinations against the fund, regulatory issues raised by the Registrar, and all deviations from policy, rules, etc.
64. The board should consider holding an annual general meeting at which fund issues can be discussed, provided this is practical and cost-effective. It would be appropriate at such a meeting that the financial statements of the fund as well as the performance of the investments be tabled and discussed. Members should be reminded that they may not pass resolutions which bind the board. The meeting should preferably be chaired by the chairperson of the board.
65. The fund's investment performance, the average costs per member and also, in respect of any fund which has independent board members, the fees and disbursements paid to or in respect of them, must be communicated to members at least once a year. Members should also be aware of who the service providers of the fund are.

INSERT ANNEXURE on member communication <hereunder>

UNIT 11: Employer and Sponsor

66. A fund owes the employer and sponsor (where different from the employer) a duty of good faith. The relationship, accordingly, between the board and an employer and sponsor should be one marked by the *independence* and cooperation of the board. The board is independent of the employer / employee relationship.
67. Where the fund is an umbrella fund, a preservation fund or a retirement annuity fund, the communication by the board with the sponsor of such a fund should be distinguished from the communication by the board with any subsidiary of the sponsor which provides services (such as administration, investment or custodian services) to the fund.

68. The board should establish a channel of communication with the employer and sponsor which should not be through employer appointed board members or sponsor employed board members (in respect of umbrella, preservation and retirement annuity funds), but which should be through the chairperson of the board.
69. When selecting and appointing service providers the board should be alert to possible conflicts of interest in acceptance of advice where for instance a consultant is also an employee of the investment administrator. These conflicts of interest must be pro-actively identified and disclosed. Acceptable, workable policies and directives to deal with such situations must be determined.
70. Boards are held *accountable* for any actions and decisions taken by their mandated sub-committees, agents, office bearers and duties outsourced to service providers. As such, the members of the board of the fund can be held jointly and severally liable for the actions of their mandated agents.
71. A fund should have clear written rules and control processes in place for the financial management and funding, investment management and the safeguarding of assets, delegation of duties, outsourcing of functions and selection process to be followed in the evaluation and appointment of service providers.
72. No service provider should derive any benefit from the fund assets and resources or its association with the fund other than those terms contractually agreed to in the signed service level agreements.
73. 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 and responsibly as delegated by the board.
74. There are various factors to consider during a formal selection and ongoing assessment process of service provider(s) including, but not limited to, the following:
 - 74.1 Skills and competencies of service provider;
 - 74.2 Track record in terms of fulfillment of mandates, breaches, case law etc.;
 - 74.3 Fee-structure of service provider and how it is linked to performance standards/ delivery on its mandates;
 - 74.4 The internal policies, practices and procedures of service providers e.g. policy on conflict of interest;
 - 74.5 Independent reference checks with past and present clients of the service providers;
 - 74.6 Benchmarking against set standards as set in the service level agreement(s), mandates etc.

INSERT ANNEXURE TO PF 130 on performance appraisals <hereunder>

Good governance guidelines to performance appraisals

A Purpose of System of Appraisal

A system of appraisal for the board is a key component of good corporate governance. The purpose of this system of appraisal is to identify the expertise of the

board and also to identify areas where improvements are necessary. This will assist the board when determining the training required and the board will also be in a position to recommend to the entities which appoint board members areas where skills are required which may be taken into account for future appointments.

The intention of the system of appraisal is not punitive but rather a constructive tool, which will enable the board to track its progress, skills and development needs.

Subject to certain exceptions, this system of appraisal largely assesses the board's performance as a whole. It is not geared towards a direct assessment of the performance of individual board members. Should the system of appraisal reveal poor performance in certain areas – if, for example many of the board members feel that their fellow board members do not come to meetings prepared - the board will have to implement a plan for remedying this situation. If the situation is not remedied and a further appraisal reveals that the particular poor performance has continued, the board will have to conduct an appropriate investigation into the matter. Such investigation should be separate from this system of appraisal and would be instituted in order to determine whether or not his or her colleagues should remove a board member from the board.

The board could also consider permitting the Chairperson of the board to conduct performance interviews with each of the board members using the results of this board appraisal to assist in that process.

B Background and construction of System of Appraisal

It is axiomatic that to assess the board's performance in carrying out its responsibilities, the board first must have a firm understanding of what its responsibilities are. Therefore, the assessment process begins with a review of the board's areas of responsibilities. These responsibilities include the general fiduciary duties of the board as set out in the code of conduct (including ethics), specific fiduciary duties of the board which arise from legislation and principles of good governance as set out in the good governance of retirement funds.

The board must also undertake an assessment of its performance against the approved strategic and business plan that may apply from time to time.

In addition to the board's consideration of its own view of its role, it is also useful to consider the stakeholders' expectations of the board. In this regard, the chief executive officer of the participating employer(s) may be invited to present the board with a statement of his or her own expectations and complete section 11 of this appraisal system, perhaps with input from other members of the board of management that have regular contact with members. The chief executive officer(s) and/or officers of the fund could also be asked to complete sections 1 to 10, i.e. to review the board's performance.

Rank answers from

1 = Needs significant improvement / definitely no

2 = Needs improvement / no

3 = Consistently good / yes

4 = Outstanding / definitely yes

5 = Do not know / neither yes nor no

In certain instances a “yes” or “no” answer would appear to be appropriate. In such circumstances 1 or 2 would constitute different levels of “no” and 3 and 4 would constitute different levels of “yes”

1	BOARD DUTIES, ROLE, DELEGATION OF FUNCTIONS AND AGENDA SETTING (MONITORING PERFORMANCE AND STRATEGIC/BUSINESS PLANNING)					
1.1	Is the board aware of its general and specific fiduciary duties to the fund and the stakeholders as contained in general principles on good governance?	1	2	3	4	5
1.2	Does the board measure its decisions against those fiduciary duties?	1	2	3	4	5
1.3	Has the board identified, prioritised and scheduled those issues that it believes should be discussed and/or reviewed by the board on a regular basis? Action lists, prioritisation of duties in terms of action lists, yearly planner setting out priorities and an indication of reporting periods would constitute such identification, prioritisation and scheduling.	1	2	3	4	5
1.4	Has the board drafted a strategic/business plan?	1	2	3	4	5
1.5	Has the board ensured that the strategic/business plan deals with black economic empowerment and employment equity?	1	2	3	4	5
1.6	Has the board identified the information (both internal and external) it requires on a regular basis, including information by which to benchmark the strategic plan?	1	2	3	4	5
1.7	Has the board considered mechanisms designed to identify areas of potential problems in its operation?	1	2	3	4	5
1.8	Has the board implemented mechanisms designed to identify areas of potential problems in its operation?	1	2	3	4	5
1.9	Has the board developed performance objectives that respond to the fund's specific objectives and needs (including comparisons to other similar funds)?	1	2	3	4	5
1.10	Is the board effective in monitoring -	1	2	3	4	5
1.10.1	operational and financial performance;	1	2	3	4	5
1.10.2	the integrity of the processes involved; and	1	2	3	4	5
1.10.3	the fund's system of internal controls?	1	2	3	4	5
1.11	How does this board compare to other boards on which a board member serves in respect of the items outlined in paragraph 1?	1	2	3	4	5
1.12	Has the board properly delegated functions to service providers, i.e. do the rules of the fund allow for delegation and are agreements in place?	1	2	3	4	5
1.13	Does the board ensure that proper monitoring of service providers and remedial action takes place, if necessary?	1	2	3	4	5
1.14	Has the board properly delegated functions to sub-committees, i.e. do the rules of the fund allow for delegation and are mandates in place?	1	2	3	4	5
1.15	Does the board ensure that proper monitoring of service providers and remedial action takes place, if necessary?	1	2	3	4	5
1.16	How does this board compare to other boards on which a board member serves in respect of the items outlined in paragraph 1?	1	2	3	4	5

2	SIZE, COMPOSITION AND INDEPENDENCE OF BOARD					
2.1	<u>Are the provisions of the rules of the fund relating to board eligibility criteria, and board size effective?</u>	1	2	3	4	5
2.2	<u>Are the provisions of the Code of Ethics and Conduct regarding composition of skills of board members, breadth of experience and other characteristics among board members effective?</u>	1	2	3	4	5
2.3	<u>Is the proportion of independent board members to board members appointed in terms of the rules of the fund appropriate for this type of fund (defined contribution fund)?</u>	1	2	3	4	5
2.4	<u>Do the board members consistently ensure that the fund and its membership, rather than stakeholders or constituencies, is the priority as required in terms of the provisions of the Pension Funds Act, 1956 ("the PFA")?</u>	1	2	3	4	5
2.5	<u>Does the independent board member(s) have an opportunity to meet with the chairperson and/or members of the board of management/or the Principal Officer on a regular basis?</u>	1	2	3	4	5
2.6	<u>Does the independent board member(s) have an opportunity to meet with the Chairperson, if appropriate, on a regular basis?</u>	1	2	3	4	5
2.7	<u>Do board membership criteria (both in terms of the Rules of the fund and in terms of the Code of Ethics and Conduct) ensure that board members have sufficient time to perform their functions?</u>	1	2	3	4	5
2.8	<u>Do board membership criteria (both in terms of the Rules of the fund and in terms of the Code of Ethics and Conduct) ensure that board members are able to retain their independent stature?</u>	1	2	3	4	5
2.9	<u>Does the board seek outside advice when appropriate?</u>	1	2	3	4	5
2.10	<u>Could the composition and organisation of the board, including sub-committee structures, be improved?</u>	1	2	3	4	5
3	BOARD MEMBER ORIENTATION, TRAINING AND DEVELOPMENT					
3.1	<u>Has the board defined and communicated its expectations concerning board member skills, knowledge and development?</u>	1	2	3	4	5
3.2	<u>Has the board provided an adequate budget for the orientation, training and development of board members?</u>	1	2	3	4	5
3.3	<u>Are new board members provided with adequate information about the fund and the board?</u>	1	2	3	4	5
3.4	<u>Rate the level of information for new board members.</u>	1	2	3	4	5
3.5	<u>Are new board members sent on an orientation programme?</u>	1	2	3	4	5
3.6	<u>Rate the orientation programme for new board members.</u>	1	2	3	4	5
3.7	<u>Rate the effectiveness of the recruitment and retention of board members?</u>	1	2	3	4	5
3.8	<u>Do board members receive proper training in corporate governance matters?</u>	1	2	3	4	5
3.9	<u>Rate the corporate governance training.</u>	1	2	3	4	5
3.10	<u>Do board members receive continuing education on issues facing the fund?</u>	1	2	3	4	5
3.11	<u>Rate the ongoing education.</u>	1	2	3	4	5
4	BOARD LEADERSHIP, TEAMWORK AND MANAGEMENT RELATIONS					
4.1	<u>Rate the effectiveness of the board's leadership at board level.</u>	1	2	3	4	5
4.2	<u>Rate the effectiveness of the board's leadership at sub-committee level.</u>	1	2	3	4	5
4.3	<u>Is board leadership distinct from operational leadership?</u>	1	2	3	4	5
4.4	<u>Rate how effectively and efficiently the board manages the conduct of board business?</u>	1	2	3	4	5

4.5	<u>Rate the board's effectiveness as a team.</u>	1	2	3	4	5
4.6	<u>How well does the board work with the Chairperson, other officers and fellow members of the board and the Principal Officer?</u>	1	2	3	4	5
4.7	<u>Do the board and the Chairperson, other officers and fellow board members and the Principal Officer work to create an open culture that encourages frank discussion?</u>	1	2	3	4	5
4.8	<u>Rate the support given by the to new board members and/or board members who do not have a high level of skill.</u>	1	2	3	4	5
4.9	<u>Rate the extent to which a few individuals dominate the board.</u>	1	2	3	4	5
5	BOARD AND COMMITTEE MEETINGS					
5.1	<u>Rate to what extent board meetings are productive.</u>	1	2	3	4	5
5.2	<u>Rate to what extent board and sub-committee meetings are productive.</u>	1	2	3	4	5
5.3	<u>Does the board have a system in place that allows it to track the number of decisions taken at meetings?</u>	1	2	3	4	5
5.4	<u>Is the number of scheduled board meetings sufficient?</u>	1	2	3	4	5
5.5	<u>Does the agenda-setting process for board meetings allow for appropriate issues to be raised as necessary?</u>	1	2	3	4	5
5.6	<u>Is the agenda ordered with sufficient time to discuss the most complex and critical issues, i.e. are the most important and/or complex issues included at the beginning of the agenda so that boards have sufficient time to apply their minds to such issues?</u>	1	2	3	4	5
5.7	<u>Can board members influence the content of the agenda?</u>	1	2	3	4	5
5.8	<u>Do board members influence the content of the agenda?</u>	1	2	3	4	5
5.9	<u>Do board members receive sufficient information about agenda items in advance?</u>	1	2	3	4	5
5.10	<u>Rate to what extent the quality, quantity, and timing of information given to board members is adequate or not.</u>	1	2	3	4	5
5.11	<u>Is sufficient meeting time devoted to discussion of fund performance and review of strategic issues?</u>	1	2	3	4	5
5.12	<u>Rate the meaningfulness or otherwise of board committees with regard to meeting frequency, duration, content and interests.</u>	1	2	3	4	5
5.13	<u>Rate to what extent non-committee board members are well informed or otherwise about the deliberations of each committee.</u>	1	2	3	4	5
5.14	<u>Do committees provide written feedback to the board?</u>	1	2	3	4	5
5.15	<u>Rate to what extent the atmosphere at board meetings is conducive to all board members being able to air their views.</u>	1	2	3	4	5
5.16	<u>Rate to what extent ethical and conduct-related issues are dealt with at meetings.</u>	1	2	3	4	5
5.17	<u>Rate to what extent disclosure required in terms of the code of ethics and conduct are dealt with at meetings.</u>	1	2	3	4	5
5.18	<u>Rate to what extent board members or committee members come to meetings prepared.</u>	1	2	3	4	5
6	BOARD, BOARD MEMBER AND COMMITTEE MEMBER EVALUATION AND COMPENSATION					
6.1	<u>Rate the extent to which the board is regularly and effectively evaluated.</u>	1	2	3	4	5
6.2	<u>Rate the extent to which board members are regularly and effectively evaluated.</u>	1	2	3	4	5
6.3	<u>Does the board have a mechanism in place to deal with board members if it is revealed through a properly constituted evaluation process that they are lacking in one or more areas, for example, they do not come to meetings prepared?</u>	1	2	3	4	5
6.4	<u>Rate the extent to which committees are regularly and</u>	1	2	3	4	5

	<u>effectively evaluated.</u>					
6.5	<u>Rate the extent to which the board ensures that board members are meeting board standards and expectations.</u>	1	2	3	4	5
6.6	<u>Has the board assessed its maximum potential, both individually and as a group?</u>	1	2	3	4	5
6.7	<u>Has the board surveyed others who perform better than it does, and assessed how it can learn from them?</u>	1	2	3	4	5
6.8	<u>Has the board considered benchmarks by which to gauge board performance?</u>	1	2	3	4	5
6.9	<u>Does the board have a credible process for reviewing its progress in meeting its goals and for maintaining the necessary resources and corporate support to function effectively?</u>	1	2	3	4	5
6.10	<u>Is the board committed to continuously improving performance, with well-established procedures for setting performance goals?</u>	1	2	3	4	5
6.11	<u>Is there a process for reducing evaluations to recommendations that are monitored for compliance?</u>	1	2	3	4	5
6.12	<u>Rate the extent to which the free and open exchange of views is encouraged.</u>	1	2	3	4	5
6.13	<u>Are board members appropriately compensated?</u>	1	2	3	4	5
6.14	<u>Does board member compensation provide incentives for maximum performance?</u>	1	2	3	4	5
6.15	<u>Is board member compensation structured so as to align the interests of the board members with the long-term interests of the fund?</u>	1	2	3	4	5
6.16	<u>Has the board agreed on the respective duties of individual board members?</u>	1	2	3	4	5
6.17	<u>Has the board set individual performance criteria for board members?</u>	1	2	3	4	5
7	MANAGEMENT EVALUATION AND COMPENSATION					
7.1	<u>Rate the extent to which the board regularly evaluates the performance of the Chairperson of the board</u>	1	2	3	4	5
7.2	<u>Rate the extent to which the board regularly evaluates the fund's performance.</u>	1	2	3	4	5
7.3	<u>To what extent can the board's methods of measuring management performance be improved?</u>	1	2	3	4	5
7.4	<u>Has the board created an appropriate designed management compensation plan?</u>	1	2	3	4	5
7.5	<u>Does the board effectively reward management's performance?</u>	1	2	3	4	5
8	SUCCESSION PLANNING					
8.1	<u>Does the board have a fund succession plan in place in respect of board members?</u>	1	2	3	4	5
8.2	<u>Does the board have a specific succession plan for the Chairperson?</u>	1	2	3	4	5
8.3	<u>Is the board familiar with other members of the Executive Committee and the Principal Officer?</u>	1	2	3	4	5
8.4	<u>Does the board regularly review members of the board of management's strengths as possible successors to the Chairperson?</u>	1	2	3	4	5
9	ETHICS					
9.1	<u>Rate the extent to which the board communicates the proper ethical and legal responsibilities to the board members?</u>	1	2	3	4	5
9.2	<u>To what extent does the board ensure ethical behaviour and proper compliance standards throughout the fund organisation, including management, and set the right "tone at the top" by its own behaviour?</u>	1	2	3	4	5
10	CONSTITUENCIES AND STAKEHOLDER EXPECTATIONS					
10.1	<u>Does the board ensure appropriate consideration for and</u>	1	2	3	4	5

	<u>treatment of various stakeholders?</u>					
10.2	<u>Does the board communicate effectively with stakeholders?</u>	1	2	3	4	5
10.3	<u>Has the board identified the varying expectations and interests of current members and pensioners?</u>	1	2	3	4	5
10.4	<u>Does the board ensure that those expectations are met and/or managed, if appropriate?</u>	1	2	3	4	5
10.5	<u>Has the board identified the expectations and interests of the employers of the current members?</u>	1	2	3	4	5
10.6	<u>Does the board manage and/or ensure that the fund meets the expectations and interests of the employers of the current members?</u>	1	2	3	4	5
10.7	<u>Has the board identified the expectations and interests of the unions/associations?</u>	1	2	3	4	5
10.8	<u>Does the board manage and/or ensure that the fund meets the expectations and interests of the unions/associations?</u>	1	2	3	4	5
10.9	<u>Is the board aware of the expectations of the regulatory authorities regarding the fund?</u>	1	2	3	4	5
10.10	<u>Does the board meet the expectations of the regulatory authorities?</u>	1	2	3	4	5
10.11	<u>Does the board ensure that it develops and maintains an appropriate relationship with the regulatory authorities?</u>	1	2	3	4	5
10.12	<u>Is the board aware of the expectations of its service providers?</u>	1	2	3	4	5
10.13	<u>Does the board manage and/or ensure that the fund meets the expectations of the service providers?</u>	1	2	3	4	5

As regards board/management relations, the board should obtain management views on the board's performance. In this regard, the Chairperson should be asked to consider how he or she would assess the board, perhaps with input from other members of the Executive Committee and the Principal Officer who have regular contact with the board. Management should be asked to consider the following questions:

11	<i>BOARD/MANAGEMENT RELATIONS – VIEW OF MANAGEMENT</i>					
11.1	<u>Is the division of responsibility between management and the board appropriate and clear?</u>	1	2	3	4	5
11.2	<u>Does the board provide wise counsel?</u>	1	2	3	4	5
11.3	<u>Does the board provide clear direction?</u>	1	2	3	4	5
11.4	<u>Does the board challenge management as appropriate?</u>	1	2	3	4	5
11.5	<u>Does the board engender management's trust?</u>	1	2	3	4	5
11.6	<u>Does the board hold information confidential?</u>	1	2	3	4	5
11.7	<u>Is the board too "micro" in its supervision, i.e. does it interfere with the detail of the management of the fund in an inappropriate manner?</u>	1	2	3	4	5
11.8	<u>Does the board request appropriate, relevant information?</u>	1	2	3	4	5
11.9	<u>Are board members prepared for board meetings?</u>	1	2	3	4	5
11.10	<u>Are board members knowledgeable about the fund and the issues it faces?</u>	1	2	3	4	5
11.11	<u>Is the proper mix of expertise reflected on the board?</u>	1	2	3	4	5
11.12	<u>Are all members of the board of management (i.e. Chairperson, Principal Officer, and other officers of the fund) invited to attend board meetings in order that they are able to stay informed of fund matters?</u>	1	2	3	4	5

UNIT 12: Regulatory Authorities/ Effective Supervision

75. The board should ensure that the requirements of any regulatory authority, particularly those of the Registrar, are complied with and that any query from such regulatory authority is dealt with expeditiously and thoroughly. Any complaint by any regulatory authority, including any correspondence from the Pension Funds Adjudicator, Magistrate or court official should be dealt with by the board itself and treated seriously and where necessary, independent, expert legal advice should be sought by the board directly.
76. It is reiterated that the annexure(s) added to this circular should be regarded as providing guidelines for creating appropriate policies and as flexible documents which may be amended from time to time. Funds may adapt these documents to suite their unique needs and circumstances without detracting from the principles contained therein, because good governance requires the application of appropriate and cost effective policies and processes to cater for the specific needs of different funds.

REFER TO THE REGISTRAR'S SLC ON www.fsb.co.za under retirement fund active circulars