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Financial Services Commission
Pensions Division
39-43 Barbados Avenue
Kingston 5
Jamaica
West Indies

31 January 2017

Dear Sir or Madam

Comments on Proposed Legislation for Pension Arrangements

This response is submitted on behalf of the Caribbean Actuarial Association. Thank you for the opportunity to comment on the FSC's proposed changes to the legislation that applies to the investment regulations for pension funds in Jamaica.

1. About the CAA

The Caribbean Actuarial Association or CAA is the body that represents actuaries working in the Caribbean region. Its main objective is to support and develop actuarial science within the Caribbean and assist actuaries with issues that are of specific concern to the region. The CAA is a full member of the International Actuarial Association.

2. Information Provided

We were provided with consultation paper (PR-CONSUL-17/01-0011) on 17 January 2016 and asked to submit our comments by 31 January 2017. Unfortunately, this deadline is far too short for us to provide a complete and detailed response. The comments here are therefore necessarily brief and limited to the extent that they have not been through the CAA's full procedures for comments on consultation papers. If the FSC is still able to incorporate comments after 31 January 2017, please let us know as we would be happy to provide a more complete response.

3. Comments

Investment is one of the most important areas in the operation of pension plans and probably the one where things can most easily go wrong and with the biggest impact. Changes to the regulations governing investments should therefore focus on whether they improve potential retirement incomes but also have regard to the security of these incomes. We generally believe regulations governing pension plans should allow the investment policy to be specifically tailored to each plan's liability profile or the investment choices made by plan members (e.g. in a defined contribution arrangement). This fits naturally into the statement of investment policy process with

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each plan developing its own investment mix. Crude investment limits can hinder this process as they pay no regard to individual plan needs¹.

Current regulations use a combination of investment limits and governance requirements such as submission of a satisfactory statement of investment policies and principles. The FSC's commentary in the paper suggests that it would like to gradually move away from such limits and increase the governance requirements². We are supportive of this and these current proposals to

- relax the existing limits that apply to the investment of pension funds;
- allow them to invest in asset classes such as unsecured debt and leases and private equity; and
- strengthen governance by increasing the disclosures to be covered in the statement of investment policies and principles and requiring the preparation of risk management policies.

However, there are a number of areas of concern that we believe warrant further attention. These are summarised below.

- (a) The overall tone of the paper implies that allowing pension plans to invest in private equity and unsecured debt and leases will be favourable for both:
 - (i) the local economy as businesses will have access to an additional source of financing; and
 - (ii) pension plans, which will benefit from the potential of higher investment returns and diversification of their asset portfolios.

We hope that this is the case but there are no guarantees. We will not comment on the accessibility of financing to local business but the potential for higher returns is coupled with higher risks and it is important that pension plan trustees are aware of these. We do, however, recognise that the proposed investment limits for these asset classes mitigate the potential for losses.

- (b) Successful investment is reliant on having access to the appropriate expertise. Pension plans looking to invest in asset classes such as unsecured debt, private equity and leases will require professional advice and it is important to ensure that the FSC has sufficient oversight over those who are responsible for giving this advice.
- (c) Jamaica is a small economy and there is possibly a greater potential for conflicts of interest when investing in these asset classes, particularly as the transactions may not occur on a recognised exchange. The FSC will need to make sure that pension plan trustees are aware of these potential conflicts. Disclosure of such conflicts of interest should be mandatory for all parties involved in these transactions including the pension plan's trustees.
- (d) Private equity and unsecured debt/leases are not actively traded so their values will not be market determined. Care will be needed when it comes to valuing such assets and the FSC has recognised this challenge in its paper.

¹ The FSC states that the investment limits are in place prevent excessive risk exposure but recognises that investment limits encourage pension plans to follow a one size fits all investment strategy.

² Towards the regulatory regimes that exist in the US, Canada and UK



- (e) The FSC may wish to assess the potential size of the Jamaican market in private equity, leases and unsecured debt particularly as the debt must be issued by corporates with an investment grade credit rating³.

We thank you for having the opportunity to comment on the proposed legislation and we look forward to participating in similar consultations in the future.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Simon Sutcliffe'.

Simon Sutcliffe
Chair, CAA Pensions Committee

³ Is this investment grade credit rating determined according to international or regional standards?