

Finansinspektionen's Regulatory Code

Publisher: Finansinspektionen, Sweden, www.fi.se
ISSN 1102-7460

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FFFS 2011:16

Published on
30 March 2011

Finansinspektionen's regulations and general guidelines regarding investment guidelines and consequence analyses for institutions conducting occupational pension provision;

decided on 17 March 2011.

Finansinspektionen prescribes¹ the following pursuant to Chapter 7, section 2 of the Insurance Business Ordinance (2011:257) and provides general guidelines.

Chapter 1 Scope and definitions

Section 1 These regulations apply to

1. insurance undertakings conducting business related to occupational pension insurance, and
2. pension foundations as those referred to in section 9a of the Safeguarding of Pension Commitments, etc. Act (1967:531).

However, an institution referred to in point 2 shall not apply the provisions in Chapter 2, section 3, point 3.

General guidelines

Insurance undertakings referred to in point 1 may not separate the risk capital if they offer both occupational pension insurance and other insurance. This means that these undertakings should provide Finansinspektionen with investment guidelines in accordance with these regulations for the whole of their business sharing the current risk capital.

Section 2 These provisions apply the following definitions:

1. *institution*: an insurance undertaking conducting business related to occupational pension insurance and a pension foundation as referred to in section 9a of the Safeguarding of Pension Commitments, etc. Act (1967:531),
2. *consequence analysis*: the account of the consequences of the investment guidelines set out in Chapter 8, section 2 and Chapter 8, sections 4 and 6 of the Insurance Business Act (2010:2043) and section 10b of the Safeguarding of Pension Commitments, etc. Act (1967:531),

¹ Cf. Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (OJ L 235, 23.09.2003, p. 10, Celex 32003L0041).

3. *liquidity risk*: the risk of an institution not being able to meet its payment obligations on their due dates without the cost of obtaining the funds increasing considerably,

4. *market risk*: the risk of the market value of net assets being negatively affected by a change in the market prices of assets, liabilities and financial contracts,

5. *counterparty risk*: the risk of a reduction in earnings due to the failure of a counterparty to fulfil the obligations of its lending agreements and other financial contracts,

6. *investment guidelines*: the general governance document that an institution applies as a basis for its investments and the content of which is in agreement with that set out in Chapter 2, sections 1–11,

7. *investment risk*: market risk, counterparty risk and liquidity risk, and

8. *investment strategy*: the institution's strategy for investment of its assets with respect to the nature and duration of the pension liabilities.

Chapter 2 Content of the investment guidelines

Section 1 The investment guidelines shall as a minimum include the information set out in these regulations.

Section 2 The investment guidelines shall include information about their purpose.

Investment strategy

Section 3 The investment guidelines shall include

1. a general description of the assets the institution may invest in,
2. information about the institution's performance targets and how the institution intends to reach these targets, and
3. information about the desired risk level for the institution's total portfolio, i.e. the combined asset and commitment portfolio.

Section 4 The investment guidelines shall also include information about the institution's strategic allocation and approved deviations from this strategy, i.e. the allocation of investments per investment class allowable in each type of investment or on different markets.

If an institution does not apply a strategic allocation, the description shall include corresponding information about the strategy the institution applies.

Risk management organisation

Section 5 The investment guidelines shall provide a general description of the institution's organisation for the management of investment risks. As a minimum, the description shall include

1. information about existing decision-making bodies,
2. a description of the institution's risk management process, and
3. an account of existing governance documents.

Measurement of investment risks

Section 6 The investment guidelines shall provide a description of the institution's methods for measuring market risks. As a minimum, the description shall include

1. information about methods for measuring all market risks of non-negligible significance, and
2. information regarding the stress tests and scenario analyses of extreme market changes or correlation patterns, etc., that are not accounted for in the basic measurement methods used by the institution.

Section 7 The investment guidelines shall also provide a description of how the institution measures counterparty risks and manages liquidity risks.

Risk follow-up

Section 8 The investment guidelines shall provide a general description of the institution's processes for risk control and risk follow-up. As a minimum, the description shall include

1. an account of the institution's follow-up of investment risks, and
2. a description of how the institution ensures satisfactory and independent risk control.

Section 9 The investment guidelines shall also provide a description of the limits or thresholds determined by the institution.

Section 10 Where applicable, the investment guidelines shall contain a description of how the institution works with normal or reference portfolios.

Section 11 The investment guidelines shall also provide a schematic description of the institution's reporting of investment risks and limits or thresholds. The description shall specify which reports are produced on a regular basis and the content of these reports, who produces the reports and who receives them.

Review of the investment guidelines

Section 12 The guidelines shall be reviewed following significant modification of the investment strategy.

Chapter 3 Content of the consequence analysis

Insurance undertakings

Section 1 The consequence analysis for insurance undertakings shall include

1. a description of the undertaking's assets and liabilities that specifies the assets held by the undertaking and the assumptions upon which the undertaking's debt is based,
2. a quantification of the expected returns and risk of the selected investment strategy and the calculations upon which this quantification is based,
3. a description of the investment strategy's expected effects on the undertaking's assets and liabilities,

4. information about the time horizon upon which the undertaking shall base its consequence analysis and the grounds for the selection of the time horizon, and
5. the risk that the undertaking will not be able to fulfil its commitments.

Pension foundations

Section 2 The consequence analysis for pension foundations shall include

1. a description of the foundation's assets, and
2. a quantification of the expected returns and risk of the selected investment strategy and the calculations upon which this quantification is based.

1. These regulations and general guidelines shall enter into force on 1 May 2011, whereupon Finansinspektionen's regulations and general guidelines (FFFS 2005:32) regarding investment guidelines and consequence analyses for institutions conducting business related to occupational pension provision shall be repealed.

2. With regard to mutual benefit societies that pursuant to section 7 of the Act (2010:2044) on the Implementation of the Insurance Business Act (2010:2043) may continue to conduct business or are in liquidation, the old regulations shall apply.

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