

# Finansinspektionen's Regulatory Code

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## Finansinspektionen's regulations regarding investment guidelines and consequence analyses for pension foundations;

**FFFS 2015:11**

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decided on den 25 November 2015

Finansinspektionen prescribes<sup>1</sup> the following pursuant to Chapter 7, section 6 of the Insurance Business Ordinance (2011:257).

### Chapter 1 Scope and definitions

**Section 1** These regulations apply to such pension foundations as are referred to in section 9a of the Safeguarding of Pension Commitments, etc. Act (1967:531).

**Section 2** These provisions apply the following definitions:

1. *consequence analysis*: the description of the consequences of the investment guidelines as referred to in section 10 b of the Safeguarding of Pension Commitments, etc. Act (1967:531),

2. *liquidity risk*: the risk of a pension foundation not being able to meet its payment obligations on their due dates without increasing the cost of obtaining the means of payment considerably,

3. *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,

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

5. *investment guidelines*: the general governance document that a pension foundation 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,

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

7. *investment strategy*: the strategy of the pension foundation for investing assets in relation to the nature and length of the pension commitments which the foundation has the purpose of securing.

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<sup>1</sup> 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).

## **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 pension foundation may invest in,
2. information about the pension foundation's return target and how it intends to reach such a target, and
3. a general description of the nature and duration of the pension commitments which the foundation has the purpose of securing.

**Section 4** The investment guidelines shall also include information about the pension foundation's strategic allocation and permitted deviations from it, i.e. the allocation of investments by investment class allowable in various investment types or on different markets.

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

### **Risk management organisation**

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

1. information about decision-making stages in place,
2. a description of the pension foundation's risk management procedure, and
3. an account of existing governance documents.

### **Measurement of investment risks**

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

1. information about methods for measuring all market risks that are not negligible,
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 pension foundation.

**Section 7** The investment guidelines shall also provide a description of how the pension foundation measures counterparty risks and manages liquidity risks. The description shall set out in particular whether the foundation may invest in securities issued by an employer whose pension commitments are secured by the foundation.

### **Risk control and risk monitoring**

**Section 8** The investment guidelines shall provide a general description of the pension foundation's processes for risk control and risk monitoring. As a minimum, the description shall include

1. an account of the pension foundation's monitoring of investment risks, and
2. a description of how the pension foundation ensures satisfactory and independent risk control.

**Section 9** The investment guidelines shall also provide a description of the limits or other thresholds determined by the pension foundations.

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

**Section 11** The investment guidelines shall also provide a schematic description of the pension foundation's reporting of investment risks, limits and other thresholds. The description shall specify which reports are regularly prepared, and their content. The person(s) who prepare(s) the reports, and the person(s) who receive(s) them, shall also be specified.

### **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**

**Section 1** The consequence analysis shall include

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

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1. 1. These regulations shall enter into force on den 1 January 2016, whereupon Finansinspektionen's regulations and general guidelines (FFFS 2011:16) regarding investment guidelines and consequence analyses for institutions conducting business related to occupational pension provision shall be repealed.

ERIK THEDÉEN

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