



# ***P R E S S R E L E A S E***

**DATE – 4 February 2008**

## **IOPS addresses the risk management of alternative investments by pension funds**

The International Organisation of Pension Supervisors (IOPS) has released a set of good practices relating to the risk management of alternative investments by pension funds. The document is directed at pension supervisory authorities to aid them in their assessment of whether the pension funds under their jurisdiction are managing their alternative investments adequately.

While recognizing that alternative investments have the potential to improve returns and reduce some types of risk, supervisors worldwide share concerns about the potential risks from the increasing use of such investments by pension funds. The way supervisors respond to these risks will vary depending on the supervisory approach adopted, but all supervisors expect that those responsible for managing pension funds will apply their risk management approaches so as to take account of the various types of risk arising from alternative investments.

The good practices suggest that, when assessing the risk management of alternative investments, supervisory authorities consider whether pension funds:

- have fully considered the specific risk and return characteristics of these investments;
- have made sure that these investments fit with their overall strategy, risk profile etc.;
- regularly check that diversification is adequate;
- regularly assess the strategy, capacity and risk control procedures of the managers of the alternative investment funds in which they are investing;
- receive sufficient information on these investments, including robust and timely valuations;
- undertake such investment only under proper contract terms, which clearly state any loss limitations, lock-up periods, fees etc.;
- are sufficiently transparent in their communication with stakeholders regarding their alternative investment policy;
- understand that they remain responsible for their alternative investments, even where such investments are outsourced.

The project team drafting the document was led by the De Nederlandsche Bank (DNB), the Dutch Central Bank, drawing on the DNB's own code of conduct in this area. Aerd Houben, Head of Supervisory Strategy at the DNB and Chair of the IOPS Technical Committee, explained that this was a particular focus of attention in the Netherlands given the increasing investment in alternative assets by the large Dutch pension funds.

“The recent market turmoil underlines the need for adequate risk management, especially in the field of alternative investments. With the publication of these good practices, IOPS aims to foster further improvements in this area for both supervisors and pension funds. The principle based, open nature of the good practices is such that they can be applied to a wide range of alternative investments, thereby accommodating the ever-evolving development of financial products and markets.” said Mr. Houben

The IOPS plans future work in this evolving field, including a stocktaking of how supervisors and the pension funds under their jurisdiction are adapting their risk-management systems to cope with the increase in alternative investments.

The good practices have been published on the IOPS website: [www.iopsweb.org](http://www.iopsweb.org)

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#### NOTES FOR EDITORS:

1. The International Organisation of Pension Supervisors (IOPS) was established in Paris on 12 July 2004, at the instigation of the OECD's network of pensions supervisors and regulators.
2. The aims and purposes of IOPS can be summarised as:
  - serving as the standard-setting body on pension supervisory matters and regulating issues related to pension supervision, taking into account the variety of different private pension systems;
  - promoting international co-operation on pension supervision and facilitating contact between pension supervisors and other relevant parties, including policy makers, researchers and the private sector;
  - providing a worldwide forum for policy dialogue and exchange of information on pension supervision;
  - participating in the work of relevant international bodies in the area of pensions, including joint activities to improve statistical collection and analysis;
  - promoting, conducting and facilitating the distribution and communication of research, and collecting information in co-operation with relevant international bodies

3. The governing membership of IOPS is open to all organisations responsible in whole or part for the supervision of pension funds, plans, schemes or arrangements in a country or sub-division of a country.
4. Associate membership is open to governmental and international authorities responsible for pension regulation or the establishment of pension policy or with a direct institutional interest in pension supervision.
5. Observer status membership is open to a wide range of other bodies.
6. The IOPS currently has over 60 members and observers.

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