



BANK OF PAPUA NEW GUINEA

**SUPERANNUATION PRUDENTIAL STANDARD
1/2006**

**AUTHORISED SUPERANNUATION FUNDS
INVESTMENTS**

ARRANGEMENT OF SECTIONS

Part I—Preliminary

1. Short title
2. Authorisation
3. Application
4. Interpretation
5. Market value
6. Commentary

Part II—Statement of Policy

7. Purpose
8. Scope
9. Responsibility

Part III—Investment managers and custodians

10. Appointing investment managers
11. Investment management agreements
12. Custodian

Part IV—Investment objectives and investment strategies

13. Investment objectives
14. Trustee determinations related to investment strategies
15. Investment strategies

Part V—Making investments

Division 1—General rules

16. Investments to be consistent with investment strategy
17. Offshore investments
18. Requirement to report where large exposures

Division 2—Financial accommodation

19. Prohibition on giving financial accommodation to members

Division 3—Arm’s length, in-house assets and dealing with associates and related parties

20. Investments in associates to be arm’s length—records
21. Investments with associates as joint tenants
22. Limit on in-house assets
23. Rights against associates and related parties to be enforced

Division 4—Derivatives

24. Derivatives

Division 5—Monitoring and review

25. Regular review of investments
26. Regular review of investment strategies

Part VI—Miscellaneous

27. Record keeping

Part VII— Corrective measures and sanction

28. Remedial measures and sanctions

Part VIII—Effective Date

29. Effective Date
30. Supersedence

PART 1—PRELIMINARY

- 1) **Short title:** This Standard may be cited as *Superannuation Prudential Standard No. 1/2006* Funds Investment.
- 2) **Authorization:** The Bank of Papua New Guinea, acting under Section 43 of the *Superannuation (General Provisions) Act 2000* and all other powers enabling it, determines this Standard.
- 3) **Application:** This Standard prescribes requirements about ASF investments and related matters. ASFs and relevant license holders must comply with it.
- 4) **Interpretation:** In this Standard, unless the contrary intention appears—
 - a) “Act” means the *Superannuation (General Provisions) Act 2000*, and regulations, other prudential standards, licences, authorities and other instruments made under or for the purposes of that Act.
 - b) “associate”, in relation to a person, means any of the following—
 - i) a relative of the person;
 - ii) a body corporate of which the person is a director;
 - iii) an employee or partner of the person;
 - iv) if the person is a company—
 - (1) a director of the company; or
 - (2) a subsidiary of the company; or
 - (3) a director or employee of a subsidiary of the company;
 - v) in relation to a body corporate or a trust—if the person has an agreement or arrangement with another person with respect to the acquisition, holding or disposal of shares or other interests in the body corporate or trust, or under which they undertake to act together in exercising their voting power in relation to the body corporate or trust—the other person.
 - c) “custodian” means a person that provides services generally called custody services to licensed trustees or licensed investment managers of ASFs.

Commentary

1. Custody services include services such as clearing, settlements, safekeeping of assets, investment administration and reporting to the trustees or investment managers. They do not include investment management services.
- d) “derivative” means a financial asset or liability the value of which depends on or is derived from other assets, liabilities or indexes.
 - e) “investment management agreement” means an agreement between the licensed trustee of an ASF and an investment manager for the provision of investment management services for the ASF.

- f) “market value” of an asset means the amount that it would be reasonable to expect a buyer to pay for the asset if the parties to the transaction were dealing with each other at arm’s length.

Commentary

1. Assets acquired for no consideration, for less than market value or for more than market value is all valued at market value. In particular, the ASF’s interest in leased property (either as lessor or lessee) is valued at the market value of its interest in the property.

Commentary on definitions

The following are defined in section 3 of the Act:

- “ASF”
- “entity”
- “group”
- “financial accommodation”
- “member”
- “property”
- “relative”.

- 5) **Market value**: For the purposes of this Standard, the value of an asset of an ASF is its market value. It is irrelevant what consideration was paid to acquire the asset.
- 6) **Commentary**: Commentary in this Standard is included for guidance.

PART II—STATEMENT OF POLICY

- 7) **Purpose**: This Standard prescribes requirements about ASF investments and related matters.
- 8) **Scope**: All ASFs and relevant license holders must comply with this Standard.
- 9) **Responsibility**: It is the responsibility of the board of directors of the Trustee Company and relevant licence holders to comply with this standard.

PART III—INVESTMENT MANAGERS AND CUSTODIANS

10) **Appointing Investment Managers**

- a) The licensed trustee of an ASF must not advertise or seek expressions of interest for appointment of an investment manager before it has notified the Central Bank as required by section 126B of the Act.

Commentary

1. Section 126B of the Act requires the licensed trustee to inform the Central Bank when contemplating appointing or changing investment managers. The Central Bank may then require the licensed trustee to appoint an independent probity officer, to advise the licensed trustee on matters of transparency and probity connected with the appointment, and report to the Central Bank on the appointment process.

- b) In selecting an investment manager, the licensed trustee of an ASF must—
 - i) use proper tendering and selection processes; and
 - ii) conduct all necessary and appropriate “due diligence” inquiries into proposed investment managers.

An appointment of an investment manager for an ASF must be in writing.

11) **Investment Management Agreements**

- a) The licensed trustee of an ASF must ensure that, so long as the appointment of an investment manager lasts, there is in force at all times a written investment management agreement between the investment manager and the licensed trustee that complies with the Act and this standard.
- b) An investment management agreement must—
 - i) clearly set out the terms on which the investment manager is engaged, including the fees payable to the investment manager and how the costs and expenses incurred by the investment manager are to be borne; and
 - ii) clearly set out the functions and duties that each party is to perform; and
 - iii) require the investment manager to comply at all times with the Act and this standard; and
 - iv) clearly specify each of the following—
 - (1) the parameters, constraints, performance standards and benchmarks for investments and investment decisions;
 - (2) performance indicators for the investment manager;
 - (3) the ownership of and rights of access to books and records relevant to the investment management agreement;
 - (4) the processes for resolving disputes between the parties;
 - (5) the rights of each party to indemnity from the other;
 - (6) the term of the agreement;
 - (7) the rights of each party to terminate the agreement;
 - (8) the obligations of each party on termination of the agreement; and

Commentary

- 1. For subparagraph (iv)(1)—the “parameters, constraints, performance standards and benchmarks for investments and investment decisions” include the investment objectives and investment strategy for the ASF, and provide for what happens when the licensed trustee varies them.
- 2. For subparagraph (iv)(4)—subsections 74 (6) and (7) of the Act require disputes about investment matters to be referred to the Central Bank.
- 3. For subparagraph (iv)(5)—subsection 48 (2) of the Act says that an investment management agreement cannot derogate or diminish the responsibilities of the licensed trustee under Act.

- v) require the investment manager to report at least monthly to the licensed trustee, and specify the contents of reports; and

- vi) require the investment manager to comply with any request for information relevant to the assets of the ASF, the investment management agreement or the ability of the investment manager to perform its obligations under the investment management agreement; and
- vii) without limiting subparagraph (iv) (7)—entitle the licensed trustee to terminate the agreement if the licence of the investment manager is suspended or revoked.
- viii) it was noted that the Trustee had not made inquiries with all their service providers to ascertain whether or not there has, or is likely to be any payment to the service provider of brokerage or commission by a third party (broker). The Trustee should be aware that in certain circumstances, a third party will pay brokerage or commission when investments of the ASF are placed with it.

The Trustee should require service providers to make the availability of the payment of any brokage or commission transparent to the Trustee. The Trustee should also require any brokerage or commission to be paid to the ASF. Trustee must include an appropriate clause to be inserted in all service provider agreements, concerning brokerage and commissions.

12) *Custodian*

The Trustee, in consultation with the Investment Manager, will ensure custodial arrangements for all its investments are satisfactory to the Bank.

PART IV—INVESTMENT OBJECTIVES AND INVESTMENT STRATEGIES

13) *Investment Objectives*

- a) The licensed trustee of an ASF must formulate an investment objective for the ASF. It must record the investment objective in writing.
- b) An investment objective for an ASF must—
 - i) specify the desired investment outcome for the ASF; and
 - ii) be capable of being clearly communicated so that members can understand the investment approach of the ASF; and
 - iii) be such that the extent to which the investment objective has been met can be easily determined.

Commentary

1. Investment objectives must be measurable. A suitable investment objective would state a performance benchmark or a desired level of return, for example, “The Fund’s investment objective is to earn, on average over a 5 year period, at least 2% above CPI”. Actual results can then be easily measured against the investment objective and reported to members.

- c) In formulating and reviewing an investment objective for the ASF, the licensed trustee must seek and take into account advice from the ASF's licensed investment manager.

14) **Trustee Determinations related to Investment Strategies**

- a) For the purpose of formulating an investment strategy, the licensed trustee of an ASF must determine—
 - i) the level of risk, and the level of volatility of returns, that it considers the members are prepared to accept in connection with investments of the ASF; and
 - ii) the desired level of liquidity for the ASF.
- b) A determination under this section must be in writing.
- c) In making a determination under subsection (a), the licensed trustee must—
 - i) have regard to all the circumstances of the ASF; and
 - ii) seek and take into account advice from the ASF's licensed investment manager.
- d) In making a determination under paragraph (a) (ii), the licensed trustee must also take into account—
 - i) the amount it considers should be invested in cash or in assets readily convertible to cash; and
 - ii) the expected timing of investment income and contributions; and
 - iii) actual or contingent expenditure requirements, for example, taxation or payment of member entitlements.

15) **Investment Strategies**

Commentary

1. Paragraph 71 (2) (f) of the Act requires the licensed trustee of an ASF to formulate and give effect to an investment strategy that has regard to the whole of the circumstances of the ASF including, but not limited to, the following—
 - the risk involved in making, holding and realising, and the likely return from, the ASF's investments having regard to its objectives and its expected cash flow requirements; and
 - composition of the ASF's investments as a whole including the extent to which the investments are diverse or involve the entity being exposed to risks from inadequate diversification; and

- the liquidity of the ASF's investments having regard to its expected cash flow requirements; and
 - the ability of the entity to discharge its existing and prospective liabilities.
- a) An investment strategy for an ASF must be in writing.
- b) An investment strategy for an ASF must specify each of the following—
- i) performance benchmarks for the returns the trustee is seeking to achieve;
 - ii) determinations under paragraph 14;
 - iii) the diversification to be maintained within asset classes and between asset classes;
 - iv) if there are to be restrictions or prohibitions on investing in assets of a particular category—what those restrictions and prohibitions are;
 - v) any restrictions on the ASF's holding investments in a single entity or group;
 - vi) any minimum liquidity standards for particular categories of investments;
 - vii) factors that are peculiar to the ASF.

Commentary

1. For paragraph (b)(iii)—see subparagraph 71 (2) (f) (ii) of the Act. The Central Bank notes that diversification is generally expected to result in a lower overall level of risk to achieve a specified return. Diversification may involve spreading investments—
 - over a number of individual assets, asset classes (domestic equities, property, fixed interest, cash, international equities);
 - within each asset class, such as investing in commercial and residential property, and in long and short term fixed interest investments.
 2. The desirable level of diversification and how it is achieved will depend on the size and circumstances of the ASF.
 3. For paragraph (c)(vii)—for example, that the average age of the ASF members is over 50.
- c) In formulating and reviewing an investment strategy for the ASF, the licensed trustee must—
- i) seek and take into account advice from the ASF's licensed investment manager; and
 - ii) take into account the following (in addition to the matters that it must take into account under paragraph 71 (2) (f) of the Act)—
 - (1) the membership profile of the ASF (including the ages of members);
 - (2) the reasonable expectations of members;
 - (3) the nature and expected timing of members' entitlements;
 - (4) the size of the ASF;
 - (5) taxation considerations relevant to the ASF and to members;
 - (6) the likelihood of future support by employers;

- (7) limitations and constraints on investments imposed by law or by some other instrument, including the ASF's governing rules;
- (8) any reports from experts or other qualified professionals;
- (9) any actual or potential conflicts of interest involving the trustee, the licensed investment manager or an associate of the trustee or the licensed investment manager.

Commentary

1. In supervising ASFs, the Central Bank will look for evidence that the specific matters under the covenant in paragraph 71 (2) (f) of the Act, and under this section, have been taken into account when formulating the investment strategy. This may be demonstrated through Board minutes and by other documentation (say, reports from investment advisers) and by the actual wording of the investment strategy.
 2. For subparagraph (c) (ii) (3)— In particular, the licensed trustee must take into account whether the entitlements are defined benefits or accumulation entitlements.
 3. For subparagraph (c) (ii) (7)—“ethical” or environment-friendly investment rules may be examples of these limitations.
- d) An investment strategy for an ASF must be clearly expressed, so that members and prospective members can easily understand it, and can assess the investment performance and management of the ASF.

Commentary

1. A widely used method is to set formal asset allocation ranges of minimum and maximum exposure permitted for each asset class with a benchmark for each asset class.

PART V—MAKING INVESTMENTS

Commentary

1. Giving effect to (or implementing) the strategy is a separate process from formulating it. Implementing a strategy involves considerations such as the value of ASF's assets, the expertise of the licensed trustee, the availability of appropriate advice, administrative capacity and the costs of managing investments. It may involve direct investment, indirect investment (say, through collective investments), using investment vehicles or managers or a combination of these approaches.

Division 1—General Rules

16) Investments to be consistent with investment strategy

- a) The licensed trustee and the licensed investment manager of an ASF must not make an investment of the ASF unless the investment is consistent with the investment strategy for the ASF.
- b) If investments of an ASF cease to be consistent with the investment strategy of the ASF:
 - i) the licensed investment manager for the ASF must notify the licensed trustee as soon as practicable; and
 - ii) the licensed trustee and the licensed investment manager of the ASF must take appropriate steps to ensure that the ASF's investments are consistent with the investment strategy of the ASF.

17) **Offshore Investments**

- (a) It is expected that the Trustee's investment strategy will normally confine any new offshore investments to deposits with financial institutions subject to equivalent prudential supervision to that in force in PNG or to securities (including listed property and other trusts) quoted on a recognised stock exchange.
- (b) Any proposed investments outside those asset classes aggregating more than 5% of total assets must be notified to the Bank.
- (c) Unless the Bank, within one month of receiving the proposal, considers it necessary to impose conditions or disallow it, the proposal shall be deemed to have been approved.

18) **Requirement to Report Where Large Exposures**

- a) The licensed investment manager for the ASF must report to the Central Bank and to the licensed trustee of the ASF if 10% or more of the value of the ASF's assets consist of investments in a single entity or a single group. The report must be made as soon as practicable after the licensed investment manager becomes aware of the matter, and updated as required by the Central Bank.

Commentary

1. Large exposures may arise from acquisition, through market movements in valuation, or through asset valuation.
2. New investments by the trustee and investment manager above 10% requires prior consultation with the Central Bank; in general, approval would only be given if some special factor applies.
3. If market movements in valuation or asset revaluation cause the percentage holding to rise above 10%, the Central Bank expects the Investment Manager to develop a diversification strategy satisfactory to the Bank to avoid the holding rising above 15%. Should the holding rise to 15% or above, the Bank will notify the Trustee and the Investment Manager of the need for realistic divestment arrangements, reflecting the nature of the market situation, to be effected within a period stipulated by the Bank in order to reduce the beneficial holding below 15%.

Division 2—Financial Accommodation

19) **Prohibition on giving Financial Accommodation to Members**

- a) Except as permitted by the Act or a prudential standard, a licensed trustee, in its capacity as trustee of an ASF, must not give any financial accommodation to a member of the ASF or to a relative of a member of the ASF using the assets of the ASF.

Commentary

1. Paragraph 75 (1) (a) of the Act prohibits a licensed trustee, in its capacity as trustee, from lending money of the ASF to a member of the ASF or a relative of a member. This rule:
 - helps to prevent avoidance of the preservation rules by preventing early access to members' account balances, and

- helps to protect and enhance the retirement benefits of members by limiting the exposure of these benefits to unnecessary risk.
2. Subsection 19(a) extends this protection by prohibiting, for example, the giving of a guarantee or other form of credit enhancement for the benefit of a member or a relative of a member. Subsection 90 (4) of the Act specifically authorises early access to entitlements for housing purposes, subject to a number of conditions.

b) Subsection 21(a) does not prevent the following—

- i) payment of wages and salary to a member who is an employee of the licensed trustee, and related payments;
- ii) payment of benefits or entitlements permitted by regulations made for the purposes of subsection 126 (2) of the Act.

Commentary

1. It is proposed that regulations under subsection 126 (2) of the Act will remove restrictions on Existing Funds and Existing Trustees (as defined in Part XVIII of the Act) paying—
- benefits or entitlements if the right to the benefit or entitlement accrued on or before 30 June 2003 and the payment was required or permitted by the governing rules of the ASF as in force immediately before the commencement of the Act;
 - housing benefits or entitlements in respect of an application made to the trustee of the ASF before the commencement of the Act;
 - benefits or entitlements by way of funding for primary, secondary, and tertiary education in respect of an application made to the trustee of the ASF before the commencement of the Act;
 - benefits or entitlements by way of funding for medical expenses;
 - life insurance benefits or entitlements.

Division 3—Arm’s length, in-house assets and dealing with associates and related parties

20) Investments in Associates to be Arm’s Length—Records

- a) The licensed trustee or licensed investment manager of an ASF must not make an investment for the ASF in an associate of the ASF, the licensed trustee or the licensed investment manager unless it has recorded in writing the reasons why it considers that the investment will be conducted at arm’s length.

General commentary on arm’ length transactions

1. Section 74 (1) of the Act requires that all ASF investments be conducted at arm’s length. Section 74 (1) applies to both trustees and investment managers, as both make investment decisions for the ASF.
2. The “arm’s length” requirement in section 74 (1) of the Act does not itself prevent investments in related parties of the ASF. (The broader investment rules in paragraphs 75 (2) (a)-(e) of the Act may prevent or limit such transactions.)
3. The Central Bank considers that an ASF conducts an investment at arm’s length if a prudent person, acting with proper regard for its

own commercial and financial interests, would have done what the ASF did. The Central Bank considers that whether an investment complies with this rule must be determined in the light of all the circumstances of the investment, including—

- whether the asking price is fair, given the expected return on the asset, the risks to which the asset is exposed and its relative liquidity; and
 - whether the projected returns of income and capital are in line with market expectations;
 - whether the investment contract adequately protects the ASF and clearly identifies the parties' rights and obligations; and
 - any valuations of the investment; and
 - whether the asset is a depreciating asset.
4. The Central Bank expects that all ASF investments will be entered into and maintained on commercial terms, or on terms that are no more favourable to the other party than would reasonably be expected if the dealing were at arm's length in similar circumstances. For example, the purchase price of an investment should be at market value (or a value more favourable to the ASF than to the other party), and the agreed or expected return from the investment should be at not less than a true market rate.

21) Investments with Associates as Joint Tenants

- a) The licensed trustee or licensed investment manager of an ASF must not make an investment for the ASF if:
- i) the investment is made together with an associate of the licensed trustee or licensed investment manager; and
 - ii) the associate and the licensed trustee or licensed investment manager hold the investment as tenants in common; and
 - iii) the licensed trustee or licensed investment manager knows or ought to know that the associate intended to use its interest in the investment by way of security.

Commentary

1. It is imprudent for an ASF to enter into such a transaction.

22) Limit on In-House Assets

Commentary

1. In-house assets restrictions in this standard are designed to help protect and enhance members' retirement benefits by limiting exposures to unnecessary risks, in particular, the risk of failure of the business activities of an employer or other related party.
- a) The licensed trustee and licensed investment manager of an ASF must ensure that, at all times during a year on a date in column 1 of the following table, the value of the in-house assets of the ASF as a percentage of the total value of the ASF's assets is no more than the percentage set out in column 2 of the table for that date.

Table

Date	Permissible limit of in-house assets as percentage of the total market value of the ASF's assets
31 December 2004	9%
31 December 2005	8%
31 December 2006	7%
31 December 2007	6%
31 December 2008	5%

- b) If:
- i) at 31 December 2003, the value of the in-house assets of an ASF of an ASF was more than 10% of the total value of the ASF's assets; or
 - ii) at any time thereafter, the value of the in-house assets of an ASF is more than 5% of the total value of the ASF's assets;

the licensed trustee and licensed investment manager of the ASF must notify the Central Bank of the matter as soon as they become aware of it; and

- (i) consult the Central Bank on steps to ensure that the percentage of the ASF's in-house assets is reduced to the satisfaction of the Central Bank; or
 - (ii) apply to the Central Bank for an exemption where such exemption should not be unnecessarily withheld unless it amounts to a gross exposure to unnecessary risk.
- c) In this section—

- i) “in-house asset” means—
 - (1) a loan by an ASF to, or an investment by an ASF in, a related party of the ASF or a related trust of the ASF; or
 - (2) an asset of the ASF subject to a lease or lease arrangement between the ASF and a related party of the ASF or a related trust of the ASF;

but does not include—

- (3) a life policy issued by a life insurance company licensed under the *Life Insurance Act 2000*;
- (4) a deposit with an authorized institution under the *Savings and Loans (Amendment) Act 1995* or the *Banks and Financial Institutions Act 2000*;
- (5) Papua New Guinea Government Notes or securities;
- (6) a loan to, or an investment in, a trust that is a widely held trust;

- (7) an asset declared by the Central Bank not to be an in-house asset.

Commentary

1. ASFs with in-house assets consisting of loans to related parties often agree to capitalise earnings on such loans rather than receive regular interest payments. Such capitalised interest payments may be an addition to the level of in-house assets of the ASF. Where an ASF does not receive due interest payments, and these are not capitalised, the ASF may be in breach of the arm's length rule. A factor in determining whether a breach has occurred may be the extent of any attempts by the trustee to secure repayment of the loan.
- ii) "employer", in relation to an ASF, means an employer that makes employer contributions to the ASF in respect of its employees that are members of the ASF.
 - iii) "related party", of an ASF, means any of the following—
 - (1) a member of the ASF;
 - (2) an employer entity;
 - (3) an associate of an employer entity
 - iv) "related trust", of an ASF, means a trust that a member or employer directly or indirectly controls, but does not include a trust where the licensed trustee or licensed investment manager of the ASF makes an investment under which a listed security is held in trust until the purchase price of the security is fully paid.
 - v) An entity will be regarded as related party for the purposes of this standard in the same circumstances they would be treated as related companies for the purposes of the Companies Act 1997.
- d) For the purposes of this section, a trust is a widely held trust if—
- i) 1 or more entities have fixed entitlements to all of the income and capital of the trust; and
 - ii) more than 20 entities between them have:
 - iii) fixed entitlements to 75% or more of the income of the trust; or
 - iv) fixed entitlements to 75% or more of the capital of the trust.
- For this purpose, an entity and its associates are taken to be a single entity.
- e) Without limiting paragraph (i)(7) of the definition of "in-house asset" in subsection (c), a declaration under that paragraph may be for a class of assets or a class of ASFs.

23) **Rights against Associates and Related Parties to be Enforced**

- a) Each of the licensed trustee and licensed investment manager of an ASF must enforce its rights in respect of an investment of the ASF with an entity that is:
- i) an associate of the licensed trustee or licensed investment manager;
or
 - ii) a related party of the ASF;
- in the same way, and to the same extent, as it would enforce similar rights in similar circumstances against a person that was not such an associate or related party.

General commentary on Division 3

No encumbrances

1. Section 74 (2) of the Act requires that all ASF assets be unencumbered, and thus, not charged or used as security for financial or other obligations.

Acquiring assets from members

2. Paragraph 75 (1) (b) prohibit the licensed trustee of an ASF, in its capacity as trustee, from intentionally acquiring assets from a member of the ASF or a relative of a member of the ASF, unless the Act permits it. The purpose of this provision is to ensure that the retirement incomes policy objectives and taxation concessions of superannuation benefits are not compromised.
3. The prohibition applies to buying assets and also contributions of assets “in specie” (assets other than money). Assets means any form of property, including money, real property (such as house and land) and personal property.
4. The prohibition is not restricted to purchase, but prohibits acquisition by any means.
5. The prohibition only applies to acquisitions from the member or relative. Therefore, acquisitions occurring when 2 ASFs merge do not contravene the prohibition, because these acquisitions are from someone other than the member or a relative.

Borrowing by and financial accommodation for ASFs

6. The Act imposes borrowing restriction to help protect and enhance the retirement benefits of members by limiting the exposure of such benefits to unnecessary risk. Borrowing restrictions ensure that benefits are not directly exposed to risks associated with geared investments and, in particular, stop lenders from acquiring claims over the ASF’s assets that might rank ahead of members' entitlements. Transactions that give rise to a debtor-creditor relationships are not necessarily loans or financial accommodation.

7. Under paragraph 75 (1) (c) of the Act, a licensed trustee of an ASF is prohibited from obtaining financial accommodation or maintaining existing financial accommodation. Borrowings are a form of financial accommodation.
8. Subsection 75 (2) of the Act permits certain limited financial accommodation, where—
 - it is to enable the licensed trustee to make a payment of members' entitlements as required law or the ASF's governing rules and that, apart from the financial accommodation, the licensed trustee would not be able to make; and
 - the period of the financial accommodation does not exceed 14 days (counting extensions, roll overs and other concessions); and
 - if the financial accommodation were to take place, the total financial accommodation would not exceed 10% of the value of the ASF's assets.
9. This type of borrowing should only be required in exceptional circumstances. The Central Bank expects the ASF's investment strategy will minimise the need for borrowing for this purpose. Borrowing to fund payments to members could demonstrate a lack of trustee diligence.
10. Borrowing or financial accommodation to fund acquisitions is not permitted.

Division 4—Derivatives

24) Derivatives

- a) The licensed trustee and the licensed investment manager of an ASF must ensure that the assets and liabilities of an ASF do not at any time include a derivative.
- b) Subsection (a) does not prevent the assets and liabilities of an ASF including:
 - i) derivatives consisting of forward purchases of currency; or
 - ii) derivatives used as hedging instruments within a foreign collective investment if the derivatives are held as incidental to the ASF's interest in the foreign collective investment.

Commentary

1. Generally derivatives must not be used, whether to speculate or to minimise risk by protecting assets against changes in the market (hedging).

Division 5—Monitoring and Review

25) Regular Review of Investments

- a) The licensed trustee and licensed investment manager of an ASF must conduct reviews of the ASF's investments to ensure that they are consistent with the ASF's investment objectives and investment strategy.
- b) The reviews must be carried out regularly, and as frequently as is appropriate having regard to the nature of the investments.

Commentary

- 1. The amount, complexity and type of investments will govern the frequency and style of monitoring. The Central Bank expects that such reviews will be undertaken at least every quarter.
- 2. If asset ranges are specified, investments must be regularly reviewed to ensure they are maintained within these ranges and that they are adjusted as necessary in the light of market movements.
- 3. The Central Bank expects that adequate and effective procedures will be in place to monitor direct investments in particular assets. This includes monitoring of performance to ensure that the investments remain relevant and appropriate, the receipt and recording of income and obtaining proper valuations.
- 4. Trustees should also ensure that adequate and effective procedures are in place to monitor indirect investments. This includes monitoring of performance to ensure that the investments remain relevant and appropriate, and the receipt of regular and timely transaction reports.

26) Regular Review of Investment Strategies

- a) The licensed trustee and the licensed investment manager for an ASF must conduct reviews of the ASF's investment strategy to ensure that it remains appropriate to circumstances of the ASF.
- b) The reviews must be carried out regularly, and as frequently as is appropriate having regard to the nature of the investments.
- c) In conducting a review, the following must be taken into account:
 - i) all the circumstances of the ASF, including the matters specified in subparagraphs 71 (2) (f) (i) to (iv) of the Act; and
 - ii) any actual or proposed changes to the ASF or to external conditions; and
 - iii) without limiting paragraphs (a) and (b)—
 - (1) relevant amendments or proposed amendments to legislation; and
 - (2) growth or decline in membership; and
 - (3) changes in membership profile; and
 - (4) changes in the general economic climate or specific markets (including financial markets); and
 - (5) changes in service providers to the ASF.

PART VI—MISCELLANEOUS

27) Record Keeping

- a) The licensed trustee of an ASF must keep complete and accurate records of—
 - i) the steps it takes in selecting investment managers and custodians; and
 - ii) the steps it takes to monitor and review the performance of investment managers and custodians, and actions taken as a result of those reviews.
- b) The licensed investment manager of an ASF must keep complete and accurate records of—
 - i) the steps it takes in selecting custodians; and
 - ii) the steps it takes to monitor and review the performance of custodians, and actions taken as a result of those reviews.
- c) The licensed trustee and licensed investment manager of an ASF must keep complete and accurate records of—
 - i) the procedures adopted to monitor and review ASF investments (direct and indirect) and actions taken as a result of those reviews;
 - ii) the procedures adopted to monitor and review the ASF's investment strategy, and actions taken as a result of those reviews;
 - iii) the steps it takes in selecting agents and service providers for the ASF; and
 - iv) the steps it takes to monitor and review the performance of agents and service providers for the ASF, and actions taken as a result of those reviews.

General commentary on this standard

External compliance audit and review

1. Future prudential standards are intended to require external auditors to conduct a compliance audit of ASFs on the implementation of investment strategies. This will be in addition to the normal review functions to be undertaken by the Central Bank.

ASFPNG Technical Direction Papers

2. The Central Bank has published investment guidelines under section 47 of the Act. These guidelines are comprised in Technical Direction Papers of the Association of Superannuation Funds of Papua and New Guinea.

PART VII—CORRECTIVE MEASURES

28) *Remedial Measures and Sanctions*

If a license holder fails to comply with this standard, the Bank may impose or vary conditions on the license to ensure compliance or, if necessary, suspend or revoke the license. Any license holder which experiences difficulty in complying with the standard should advise the Bank forthwith.

PART VIII—EFFECTIVE DATE

- 29) **Effective Date:** The effective date of this Prudential Standard shall be 30th June 2006.
- 30) **Supercedence:** This standard supersedes and replaces Prudential Standard 1/2004 “Authorised Superannuation Funds Investments” issued in February 2004.

Questions and enquiries relating to this prudential standard should be addressed to The Manager, Financial System Supervision Department Bank of PNG, Tel: 322-7222.

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Loi M. Bakani
ACTING GOVERNOR