

Subsidiary Legislation made under ss.585, 586, 587, 620(1), 621(1) and 627.

Financial Services (Occupational Pensions Institutions) Regulations 2020

LN.2020/042

	<i>Commencement</i>	15.1.2020
Amending enactments	Relevant current provisions	Commencement date
LN.2020/495	rr. 3(1), 7(2)(e), 9(1)(a), 11(2), 19(5)-(6), 25(3)(f), 29(a)-(c), 30(4)(c)(ii), 31(5), 34(3)-(6), 37-39	1.1.2021
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2019-26

Financial Services

2020/042 **Financial Services (Occupational Pensions Institutions)
Regulations 2020**

This version is out of date

ARRANGEMENT OF REGULATIONS.

Regulation

**PART 1
PRELIMINARY**

1. Title and commencement.
2. Application.
3. Interpretation.

**PART 2
CONDUCT OF BUSINESS**

General requirements

4. Activities of an IORP.
5. Separation of IORPs and sponsoring undertakings.
6. Operating requirements.

Provision of information

7. Principles.
8. Information to be given to prospective members.
9. General information on the pension scheme.

Pension benefit statements and supplementary information

10. Pension benefit statements.
11. Content of pension benefit statements.
12. Supplementary information.

Other information and documents to be provided

13. Information to be given to members during the pre-retirement phase.
14. Information to be given to beneficiaries during the pay-out phase.
15. Additional information to be given on request to members and beneficiaries.

**PART 3
CORPORATE GOVERNANCE AND RISK MANAGEMENT**

This version is out of date

Investment rules

16. Investment rules.

System of governance – general provisions

17. Responsibility of management or supervisory body.
18. General governance requirements.
19. Requirements for fit and proper management.
20. Remuneration policy.

Key functions

21. General provisions.
22. Risk-management.
23. Internal audit function.
24. Actuarial function.

Documents concerning governance

25. Own-risk assessment.
26. Annual accounts and annual reports.
27. Statement of investment policy principles.

Outsourcing and investment management

28. Outsourcing.
29. Investment management.

**PART 4
PRUDENTIAL REQUIREMENTS**

Technical provisions

30. Technical provisions.
31. Funding of technical provisions.

Regulatory own funds

32. Regulatory own funds.

2019-26

Financial Services

2020/042

**Financial Services (Occupational Pensions Institutions)
Regulations 2020**

This version is out of date

Solvency margin

- 33. Available solvency margin.
- 34. Required solvency margin.
- 35. Required solvency margin for the purpose of regulation 34(3).

**PART 5
SUPERVISION**

- 36. Information to be provided to the GFSC.

In exercise of the powers conferred on the Minister by sections 585, 586, 587, 620(1), 621(1) and 627 of the Financial Services Act 2019, as read with section 23(g)(i) of the Interpretation and General Clauses Act, and upon the Government by section 23(g)(ii) of that Act and by all other enabling powers, the Minister and the Government have made these Regulations.

PART 1 PRELIMINARY

Title and commencement.

1.(1) These Regulations may be cited as the Financial Services (Occupational Pensions Institutions) Regulations 2020.

(2) These Regulations come into operation on the day of publication.

Application.

2.(1) These Regulations apply to institutions for occupational retirement provision (IORPs) which carry on activities in or from Gibraltar.

(2) With the exception of regulations 16(1), 18(1) and (2) and 29, these Regulations do not apply to small institutions within the meaning of section 558 of the Act.

Interpretation.

3.(1) In these Regulations—

“the Act” means the Financial Services Act 2019;

“biometric risks” mean risks linked to death, disability and longevity;

“IORP” means an institution for occupational retirement provision;

(2) Without limiting section 21 of the Interpretation and General Clauses Act, other expressions used in these Regulations which are defined in Part 26 of the Act have the meaning as in that Part.

PART 2 CONDUCT OF BUSINESS

General requirements

Activities of an IORP.

4.(1) An IORP must limit its activities to retirement-benefit related operations and activities arising from them.

(2) As a general principle IORPs must, where relevant, have regard to the aim of having an equitable spread of risks and benefits between generations in their activities.

Separation of IORPs and sponsoring undertakings.

5. An IORP must be—

- (a) legally separate from the sponsoring undertaking; and
- (b) established under arrangements which ensure that the IORP's assets are safeguarded in the interests of members and beneficiaries in the event that the sponsoring undertaking becomes the subject of any of the insolvency events specified in section 3 of the Insolvency Act 2011.

Operating requirements.

6. The GFSC must ensure that—

- (a) an IORP has implemented properly constituted rules regarding the operation of any pension scheme; and
- (b) where the sponsoring undertaking guarantees the payment of the retirement benefits, it is committed to regular financing.

Provision of information

Principles.

7.(1) An IORP, taking account of the nature of the pension scheme it operates, must provide—

- (a) prospective members with the information set out in regulation 8;
- (b) members with the information set out in regulations 9 to 13 and 15; and
- (c) beneficiaries with the information set out in regulations 9, 14 and 15.

- (2) The information referred to in sub-regulation (1) must—
- (a) be regularly updated;
 - (b) be written in a clear manner—
 - (i) using clear, succinct and comprehensible language;
 - (ii) avoiding the use of jargon; and
 - (iii) avoiding technical terms where everyday words can be used instead;
 - (c) not be misleading, with consistency in the vocabulary and content;
 - (d) be presented in a way that is easy to read;
 - (e) be available in English; and
 - (f) be made available to prospective members, members and beneficiaries free of charge through electronic means, including on a durable medium or by means of a website, or on paper.

Information to be given to prospective members.

8.(1) An IORP must ensure that prospective members who are not automatically enrolled in a pension scheme are informed, before they join that pension scheme, about—

- (a) any relevant options available to them including investment options;
- (b) the relevant features of the pension scheme including the kind of benefits;
- (c) information on whether and how environmental, climate, social and corporate governance factors are considered in the investment approach; and
- (d) where further information is available.

(2) Where members bear investment risk or can take investment decisions, prospective members must be provided with information—

- (a) on the past performance of investments related to the pension scheme—

- (i) for a minimum of five years; or
 - (ii) where the scheme has been operating for less than five years, for all the years that it has operated; and
 - (b) on the structure of costs borne by members and beneficiaries.
- (3) An IORP must ensure that prospective members who are automatically enrolled in a pension scheme are, after their enrolment, promptly informed about–
- (a) any relevant options available to them including investment options;
 - (b) the relevant features of the pension scheme including the kind of benefits;
 - (c) whether and how environmental, climate, social and corporate governance factors are considered in the investment approach; and
 - (d) where further information is available.

General information on the pension scheme.

- 9.(1) An IORP must ensure that members and beneficiaries are sufficiently informed about the respective pension scheme operated by the IORP, in particular concerning–
- (a) the name of the IORP and that it is authorised by or registered with the GFSC;
 - (b) the rights and obligations of the parties involved in the pension scheme;
 - (c) information on the investment profile;
 - (d) the nature of financial risks borne by the members and beneficiaries;
 - (e) the conditions regarding full or partial guarantees under the pension scheme or of a given level of benefits or, where no guarantee is provided under the pension scheme, a statement to that effect;
 - (f) the mechanisms protecting accrued entitlements or the benefit reduction mechanisms, if any;

This version is out of date

- (g) where members bear investment risk or can take investment decisions, information on the past performance of investments related to the pension scheme—
 - (i) for a minimum of five years; or
 - (ii) where the scheme has been operating for less than five years, for all the years that it has operated;
 - (h) the structure of costs borne by members and beneficiaries, for schemes which do not provide for a given level of benefits;
 - (i) the options available to members and beneficiaries in receiving their retirement benefits; and
 - (j) in case a member has the right to transfer pension rights, further information about the arrangements relating to such a transfer.
- (2) For schemes in which members bear an investment risk and which provide for more than one option with different investment profiles, the members must be informed of—
- (a) the conditions regarding the range of investment options available; and
 - (b) where applicable, the default investment option and the pension scheme's rule to allocate a particular member to an investment option.
- (3) Members and beneficiaries or their representatives must receive within a reasonable time any relevant information regarding changes to the pension scheme rules and, in addition, an IORP must make available to them an explanation of the impact on members and beneficiaries of significant changes to technical provisions.
- (4) An IORP must make available the general information on the pension scheme set out in this regulation.

Pension benefit statements and supplementary information

Pension benefit statements.

10.(1) An IORP must draw up a concise document containing key information for each member, taking account of the specific nature of national pension systems and of relevant national social, labour and tax law (a “pension benefit statement”) and the title of the document must contain the words “Pension Benefit Statement”.

(2) A pension benefit statement must state prominently the date to which the information in the statement refers.

(3) The information contained in a pension benefit statement must be accurate, updated and made available to each member free of charge at least once each year—

(a) by electronic means, including on a durable medium or by means of a website; or

(b) on paper,

and a paper copy must be provided to a member on request in addition to any information provided to that member by electronic means.

(4) A pension benefit statement must clearly indicate any material change to the information contained in the statement as compared to the statement for the previous year.

(5) An IORP, in determining—

(a) the annual rate of nominal investment returns;

(b) the annual rate of inflation; or

(c) the trend of future wages,

must, where relevant, apply any rules made by the GFSC under the Act for determining the assumptions of the projections referred to in regulation 11(1)(d).

Content of pension benefit statements.

11.(1) A pension benefit statement must include the following key information for members—

(a) personal details of the member including, as applicable, a clear indication of the statutory retirement age, the retirement age set out in the pension scheme or estimated by the IORP or the retirement age set by the member;

(b) the name of the IORP, its contact address and identification of the pension scheme of the member;

(c) where applicable, information on full or partial guarantees under the pension scheme and, if relevant, where further information can be found;

- (d) information on pension benefit projections based on the retirement age as specified in paragraph (a), a disclaimer that those projections may differ from the final value of the benefits received and, if the pension benefit projections are based on economic scenarios, a best estimate scenario and an unfavourable scenario, taking into consideration the specific nature of the pension scheme;
- (e) information on the accrued entitlements or accumulated capital, taking into consideration the specific nature of the pension scheme;
- (f) information on the contributions paid by the sponsoring undertaking and the member into the pension scheme, at least over the last 12 months, taking into consideration the specific nature of the pension scheme;
- (g) a breakdown of the costs deducted by the IORP at least over the last 12 months; and
- (h) information on the funding level of the pension scheme as a whole.

(2) *Omitted.*

Supplementary information.

12.(1) A Pension Benefit Statement must specify where and how to obtain supplementary information including–

- (a) further practical information about the member's options provided under the pension scheme;
- (b) the information specified in regulations 26 and 27;
- (c) where applicable, information about the assumptions used for amounts expressed in annuities, in particular with respect to the annuity rate, the type of provider and the duration of the annuity; and
- (d) information on the level of benefits, in case of cessation of employment.

(2) For pension schemes where members bear investment risk and where an investment option is imposed on the member by a specific rule specified in the pension scheme, the pension benefit statement must indicate where additional information is available.

2019-26

Financial Services

**2020/042 Financial Services (Occupational Pensions Institutions)
Regulations 2020**

This version is out of date

Other information and documents to be provided

Information to be given to members during the pre-retirement phase.

13. An IORP must provide each member in due time before the retirement age specified under regulation 11(1)(a), or at the member's request, with information (in addition to a pension benefit statement) about the benefit pay-out options available in taking their retirement benefits.

Information to be given to beneficiaries during the pay-out phase.

14.(1) An IORP must provide beneficiaries with information periodically about the benefits due and the corresponding pay-out options.

(2) An IORP must inform beneficiaries without delay after a final decision has been taken resulting in any reduction in the level of benefits due, and three months before that decision is implemented.

(3) When a significant level of investment risk is borne by beneficiaries in the pay-out phase, an IORP must ensure that beneficiaries receive appropriate information regularly.

Additional information to be given on request to members and beneficiaries.

15. An IORP must provide the following additional information to a member, a beneficiary or their representative upon request—

- (a) the annual accounts and the annual reports referred to in regulation 26, or where the IORP is responsible for more than one scheme, the accounts and reports relating to the pension scheme concerned;
- (b) the statement of investment policy principles, referred to in regulation 27; and
- (c) any further information about the assumptions used to generate the projections referred to regulation 11(1)(d).

**PART 3
CORPORATE GOVERNANCE AND RISK MANAGEMENT**

Investment rules

Investment rules.

16.(1) An IORP must invest in accordance with the ‘prudent person’ rule and, in particular, in accordance with the following requirements–

- (a) the assets must be invested in the best long-term interests of members and beneficiaries as a whole and, in the event of a potential conflict of interest, an IORP or the entity which manages its portfolio must ensure that the investment is made in the sole interest of members and beneficiaries;
- (b) acting within the prudent person rule, IORPs may take account of the potential long-term impact of investment decisions on environmental, social, and governance factors;
- (c) the assets must be invested in a manner which ensures the security, quality, liquidity and profitability of the portfolio as a whole;
- (d) the assets must be predominantly invested on regulated markets and investment in assets which are not admitted to trading on a regulated financial market must in any event be kept to prudent levels;
- (e) investment in derivative instruments is permitted where those instruments contribute to a reduction in investment risks or facilitate efficient portfolio management, but–
 - (i) they must be valued on a prudent basis, taking into account the underlying asset, and included in the valuation of the IORP's assets; and
 - (ii) the IORP must avoid excessive risk exposure to a single counterparty and to other derivative operations;
- (f) the assets must be properly diversified, in way which avoids excessive reliance on any particular asset, issuer or group of undertakings and accumulations of risk in the portfolio as a whole and investments in assets issued by the same issuer or by issuers belonging to the same group must not expose an IORP to excessive risk concentration;
- (g) investment in the sponsoring undertaking must be no more than 5% of the portfolio as a whole and, when the sponsoring undertaking belongs to a group, investment in the undertakings belonging to that group must not be more than 10% of the portfolio; and

2019-26

Financial Services

**2020/042 Financial Services (Occupational Pensions Institutions)
Regulations 2020**

This version is out of date

- (h) Where an IORP is sponsored by a number of undertakings, investment in those sponsoring undertakings must be made prudently, taking into account the need for proper diversification.
- (2) The requirements in sub-regulation (1)(f) to (h) do not apply to investment in government bonds.
- (3) Taking account of the size, nature, scale and complexity of an IORP's activities, the GFSC must—
- (a) monitor the adequacy of an IORP's credit assessment processes;
 - (b) assess its use of references to agency credit ratings in its investment policies; and
 - (c) where appropriate, encourage mitigation of the impact of those references, with a view to reducing sole and mechanistic reliance on those ratings.
- (4) In sub-regulation (3) “agency credit ratings” means credit ratings issued by credit rating agencies and, for this purpose, “credit rating agency” means a legal person whose occupation includes the issuing of credit ratings on a professional basis.
- (5) Subject to sub-regulation (6), an IORP must not borrow or act as a guarantor on behalf of any third party.
- (6) The GFSC may authorise an IORP to borrow on a temporary basis for liquidity purposes.
- (7) Sub-regulations (1) to (6) apply subject to any additional and more detailed requirements, including quantitative requirements where they are prudentially justified, which the GFSC may specify in rules made under the Act to reflect the total range of pension schemes operated by IORPs authorised in Gibraltar.
- (8) Subject to sub-regulation (10), nothing in this regulation—
- (a) requires an IORP to invest in particular categories of assets;
 - (b) without limiting regulation 27, requires the investment decisions of an IORP or its investment manager to be subject to any form of prior approval or systematic notification; or
 - (c) prevents an IORP from—

This version is out of date

- (i) investing up to 70% of the assets covering the technical provisions or, for schemes in which the members bear the investment risks, of the whole portfolio, in shares, negotiable securities treated as shares and corporate bonds admitted to trading on regulated markets or through MTFs or OTFs, and deciding on the relative weight of those securities in its investment portfolio;
- (ii) investing up to 30% of the assets covering technical provisions in assets denominated in currencies other than those in which the liabilities are expressed;
- (iii) investing in instruments that have a long-term investment horizon and are not traded on regulated markets, MTFs or OTFs; or
- (iv) investing in instruments that are issued or guaranteed by the EIB provided in the framework of the European Fund for Strategic Investments, European Long-term Investment Funds, European Social Entrepreneurship Funds and European Venture Capital Funds.

(9) Where it is prudentially justified, the Minister by notice in the Gazette may specify a lower investment limit (but no lower than 35%) which is to apply for the purposes of sub-regulation (8)(c)(i) in respect of IORPs which operate pension schemes with a long-term interest rate guarantee, bear the investment risk and provide for the guarantee.

(10) Nothing in sub-regulation (8) prevents the application of more stringent investment requirements to IORPs on an individual basis where doing so is prudentially justified, in particular, in light of the liabilities entered into by the IORP.

System of governance – general provisions

Responsibility of management or supervisory body.

17.(1) The management or supervisory body of an IORP has ultimate responsibility for the IORP's compliance with these Regulations and the Act.

(2) Sub-regulation (1) applies without limiting the role of social partners in the management of IORPs.

General governance requirements.

This version is out of date

18.(1) An IORP must have an effective system of governance which provides for sound and prudent management of its activities, including—

- (a) an adequate and transparent organisational structure with a clear allocation and appropriate segregation of responsibilities;
- (b) an effective system for ensuring the transmission of information; and
- (c) arrangements which enable investment decisions to take account of environmental, social and governance factors related to investment assets.

(2) An IORP's system of governance must be—

- (a) proportionate to the size, nature, scale and complexity of its activities; and
- (b) subject to regular internal review.

(3) An IORP must establish and apply written policies in relation to—

- (a) risk management;
- (b) internal audit; and
- (c) where relevant—
 - (i) actuarial activities; and
 - (ii) outsourced activities.

(4) The policies established under sub-regulation (3) must be approved by the IORP's management or supervisory body, reviewed at least once every three years and adapted to take account of any significant change in the system or area concerned.

(5) An IORP must have in place an effective internal control system which includes administrative and accounting procedures, an internal control framework and appropriate reporting arrangements at all levels of the IORP.

(6) An IORP must take reasonable steps to ensure continuity and regularity in the performance of its activities, including the development of contingency plans, and an IORP must employ appropriate and proportionate systems, resources and procedures for that purpose.

(7) An IORP must effectively be run by at least two persons.

Requirements for fit and proper management.

19.(1) An IORP must ensure that individuals who effectively run the IORP, individuals who carry out key functions and, where applicable, individuals or entities to which a key function has been outsourced in accordance with regulation 28 are fit and proper to carry out their tasks.

(2) For the purposes of sub-regulation (1)–

(a) the requirement to be “fit” means–

- (i) for those who effectively run the IORP, that their qualifications, knowledge and experience are collectively adequate to enable them to ensure the sound and prudent management of the IORP;
- (ii) for those who carry out the actuarial or internal audit key functions, that their professional qualifications, knowledge and experience are adequate to properly carry out their key functions; or
- (iii) for those who carry out other key functions, that their qualifications, knowledge and experience are adequate to properly carry out their key functions; and

(b) the requirement to be “proper” means that they are of good repute and integrity.

(3) Without limiting sub-regulation (2)(b), in determining whether a person is of good repute and integrity the GFSC may take account of–

- (a) the person’s probity;
- (b) the person’s competence and soundness of judgement for fulfilling the responsibilities of the relevant position;
- (c) the diligence with which the person is fulfilling or likely to fulfil those responsibilities; and
- (d) the person’s holding of the relevant position would, or would be likely to, prejudice–

This version is out of date

- (i) the interests of members or potential members of the pension scheme operated by the IORP; or
 - (ii) the reputation of Gibraltar;
- (e) the person's previous conduct and activities in business or financial matters and, in particular, any evidence that the person has–
- (i) committed an offence involving fraud or other dishonesty or violence;
 - (ii) contravened any provision made by or under any enactment which appears to the GFSC to be intended to protect members of the public from financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of financial services or the management of companies;
 - (iii) engaged in any business practice which appears to the GFSC to be deceitful, oppressive or otherwise improper (whether unlawful or not) or which otherwise reflects discredit on the person's method of conducting business;
 - (iv) engaged in or been associated with any other business practice or conduct which casts doubt on the person's competence and soundness of judgment;
 - (v) contravened any internal rules of, or exceeded any limit of authority in, any current or previous or employment; or
 - (vi) misled or attempted to mislead any person in any current or previous employment or any investigation or inquiry.

(4) For the purpose of assessing a person's fitness and propriety the GFSC may require the person to provide in with any information that it may reasonably require.

Remuneration policy.

20.(1) An IORP must establish and apply a sound remuneration policy for–

- (a) the individuals who effectively run the IORP;
- (b) the individuals who carry out key functions; and

This version is out of date

- (c) other categories of staff whose professional activities have a material impact on the IORP's risk profile.
- (2) A remuneration policy must be established and applied in a manner that is proportionate to–
- (a) the size and internal organisation of the IORP; and
 - (b) the size, nature, scale and complexity of its activities.
- (3) Subject to the data protection legislation, an IORP must regularly disclose publicly relevant information regarding its remuneration policy.
- (4) When establishing and applying its remuneration policy, an IORP must comply with the following principles–
- (a) the remuneration policy must be established, implemented and maintained in line with the activities, risk profile, objectives, and the long-term interest, financial stability and performance of the IORP as a whole, and must support the sound, prudent and effective management of the IORP;
 - (b) the remuneration policy must be in line with the long-term interests of members and beneficiaries of pension schemes operated by the IORP;
 - (c) the remuneration policy must include measures aimed at avoiding conflicts of interest;
 - (d) the remuneration policy must be consistent with sound and effective risk management and must not encourage risk-taking which is inconsistent with the risk profiles and rules of the IORP;
 - (e) the remuneration policy must apply to the IORP and to the service providers referred to in regulation 28(1), unless those service providers are entities to which section 557(3)(c) of the Act applies;
 - (f) the IORP must establish the general principles of the remuneration policy, review and update it at least once every three years, and be responsible for its implementation; and
 - (g) there must be clear, transparent and effective governance with regard to remuneration and its oversight.

Key functions

General provisions.

21.(1) An IORP must—

- (a) have the following key functions in place—
 - (i) a risk-management function;
 - (ii) an internal audit function; and
 - (iii) where applicable, an actuarial function; and
- (b) enable key function holders to undertake their duties effectively in an objective, fair and independent manner.

(2) An IORP may allow an individual or organisational unit to carry out more than one key function, other than the internal audit function set out in regulation 23 which must be independent from the other key functions.

(3) Subject to sub-regulation (4), the individual or organisational unit carrying out a key function must be different from the one carrying out a similar key function in the sponsoring undertaking.

(4) The GFSC may authorise an IORP to carry out key functions through the same individual or organisational unit as in the sponsoring undertaking, where the GFSC considers that—

- (a) it is appropriate to do so, taking account of the size, nature, scale and complexity of the IORP's activities; and
- (b) the IORP has provided a satisfactory explanation of how it will prevent or manage any conflicts of interest with the sponsoring undertaking.

(5) Key function holders must report any material findings and recommendations in the area of their responsibility to the IORP's administrative, management or supervisory body, which must determine what action is to be taken.

This version is out of date

(6) A key function holder must inform the GFSC if an IORP's administrative, management or supervisory body does not take appropriate and timely remedial action where the person or organisational unit carrying out the key function—

- (a) has detected a substantial risk that the IORP will not comply with a materially significant statutory requirement, of the IORP which could have a significant impact on the interests of members and beneficiaries and has reported it to the IORP's administrative, management or supervisory body; or
- (b) has observed a significant material breach of the laws, regulations or administrative provisions which to the IORP and its activities in the context of that key function and has reported it to the IORP's administrative, management or supervisory body.

(7) Sub-regulation (6) applies without limiting the key function holder's privilege against self-incrimination.

(8) A key function holder who, under sub-regulation (6) reports a failure to take remedial action to the GFSC—

- (a) is not to be considered to be in breach of any restriction on disclosure of information imposed by contract or by any law and any provision in an agreement is void in so far as it purports to preclude an employee from making such a report; and
- (b) has the right not to be subjected to any detriment by any act, or any deliberate failure to act, by his or her employer done on the ground that the employee has made such a report.

(9) An employee who has been subjected to a detriment contrary to sub-regulation (8)(b) may present a complaint to the Employment Tribunal as if the making of a report under sub-regulation (6) was a protected disclosure within the meaning of Part IVA of the Employment Act.

Risk-management.

22.(1) An IORP must have in place an effective risk-management function which is proportionate to its size, internal organisation and the size, nature, scale and complexity of its activities.

This version is out of date

(2) The risk-management function must be structured in a way which facilitates the functioning of the risk-management system which the IORP must adopt, being the strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report to the IORP's administrative, management or supervisory body regularly the risks, at an individual and aggregated level, to which the IORP and the pension schemes it operates are or could be exposed, and their interdependencies.

(3) The risk-management system must be effective and well-integrated into the IORP's organisational structure and decision-making processes.

(4) The risk-management system must cover, in a manner that is proportionate to the IORP's size and internal organisation and the size, nature, scale and complexity of its activities, risks which can occur in IORPs or in undertakings to which tasks or activities of an IORP have been outsourced, at least in the following areas, where applicable–

- (a) underwriting and reserving;
- (b) asset-liability management;
- (c) investment, in particular derivatives, securitisations and similar commitments;
- (d) liquidity and concentration risk management;
- (e) operational risk management;
- (f) insurance and other risk-mitigation techniques; and
- (g) environmental, social and governance risks relating to the investment portfolio and its management.

(5) Where, in accordance with the conditions of a pension scheme, members and beneficiaries bear risks, the risk management system must also consider those risks from the perspective of members and beneficiaries.

Internal audit function.

23.(1) An IORP must provide for an effective internal audit function in a manner that is proportionate to its size and internal organisation and to the size, nature, scale and complexity of its activities.

(2) The internal audit function must include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance, including, where applicable, outsourced activities.

Actuarial function.

24.(1) Where an IORP itself provides cover against biometric risks or guarantees either an investment performance or a given level of benefits, the IORP must provide for an effective actuarial function to—

- (a) coordinate and oversee the calculation of technical provisions;
- (b) assess the appropriateness of the methodologies and underlying models used in the calculation of technical provisions and the assumptions made for this purpose;
- (c) assess the sufficiency and quality of the data used in the calculation of technical provisions;
- (d) compare the assumptions underlying the calculation of the technical provisions with the experience;
- (e) inform the IORP's administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- (f) express an opinion on the overall underwriting policy (where the IORP has such a policy);
- (g) express an opinion on the adequacy of insurance arrangements (where the IORP has such arrangements); and
- (h) contribute to the effective implementation of the risk management system.

(2) An IORP must designate at least one independent person, inside or outside the IORP, who is responsible for the actuarial function.

Documents concerning governance

Own-risk assessment.

This version is out of date

25.(1) An IORP must carry out and document its own-risk assessment in a manner that is proportionate to its size and internal organisation and the size, nature, scale and complexity of its activities.

(2) That risk assessment must be carried out–

- (a) at least once every three years; or
- (b) without delay following any significant change in the risk profile of the IORP or the pension schemes it operates;

but where the significant change is limited to the risk profile of a specific pension scheme, for the purposes of paragraph (b) the risk assessment may be limited to that pension scheme.

(3) The risk assessment must include the following, having regard to the IORP's size and internal organisation and the size, nature, scale and complexity of its activities–

- (a) a description of how own-risk assessment is integrated into the management process and into the decision-making processes of the IORP;
- (b) an assessment of the effectiveness of the risk-management system;
- (c) a description of how the IORP prevents conflicts of interest with the sponsoring undertaking, where the IORP outsources key functions to the sponsoring undertaking in accordance with regulation 21(4);
- (d) an assessment of the overall funding needs of the IORP, including a description of any applicable recovery plan;
- (e) an assessment of the risks to members and beneficiaries relating to the paying out of their retirement benefits and, where applicable, the effectiveness of any remedial action taking account of–
 - (i) indexation mechanisms; or
 - (ii) benefit reduction mechanisms, including the extent to which accrued pension benefits can be reduced, under which conditions and by whom;
- (f) a qualitative assessment of the mechanisms protecting retirement benefits, including, as applicable–

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- (i) guarantees, covenants or any other type of financial support by the sponsoring undertaking;
- (ii) insurance or reinsurance by an undertaking with Part 7 permission to carry on the regulated activity in paragraph 24 of Schedule 2 to the Act of effecting and carrying out contracts of insurance; or
- (iii) coverage by a pension protection scheme;

in favour of the IORP or the members and beneficiaries;

- (g) a qualitative assessment of the operational risks; and
- (h) where environmental, social and governance factors are considered in investment decisions, an assessment of new or emerging risks, including risks related to climate change, use of resources and the environment, social risks and risks related to the depreciation of assets due to regulatory change.

(4) For the purposes of sub-regulation (3), an IORP must have in place methods to identify and assess the risks that it is or could be exposed to in the short and long term and which may have an impact on the IORP's ability to meet its obligations and those methods must—

- (a) be described in its own-risk assessment; and
- (b) be proportionate to the size, nature, scale and complexity of the risks inherent in its activities.

(5) The own-risk assessment must be taken into account in the strategic decisions of the IORP.

Annual accounts and annual reports.

26.(1) An IORP must prepare and publish—

- (a) annual accounts and annual reports which take account of each pension scheme it operates; and
- (b) where applicable, annual accounts and annual reports for each of those pension schemes.

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(2) The annual accounts and the annual reports must give a true and fair view of the IORP's assets, liabilities and financial position and include disclosure of significant investment holdings.

(3) The annual accounts and information in the reports must be consistent, comprehensive, fairly presented and approved by a statutory auditor or audit firm, in accordance with the Companies Act 2014.

Statement of investment policy principles.

27.(1) An IORP must prepare a written statement of investment policy principles which must be reviewed and, if applicable, revised—

- (a) at least once every three years; or
- (b) without delay following any significant change in the investment policy.

(2) An investment policy statement must contain—

- (a) the investment risk measurement methods;
- (b) the risk-management processes implemented and the strategic asset allocation with respect to the nature and duration of pension liabilities; and
- (c) an explanation of how the investment policy takes environmental, social and governance factors into account.

(3) An IORP's investment policy statement must be made publicly available.

Outsourcing and investment management

Outsourcing.

28.(1) An IORP may entrust any activity in whole or part, including a key function or the management of the IORP, to a service provider operating on the IORP's behalf.

(2) An IORP that outsources any activity under sub-regulation (1) must enter into a legally enforceable written agreement with the service provider which clearly defines the rights and obligations of the IORP and the service provider.

(3) An IORP must notify the GFSC promptly of—

- (a) any outsourcing under sub-regulation (1); and
- (b) any important development with respect to an outsourced activity.

(4) Notice under sub-regulation (3) must be given to the GFSC in the form and manner that it directs and, where the outsourcing relates to a key function or management of an IORP, before the agreement in respect of the outsourcing comes into effect.

(5) An IORP remains fully responsible for compliance with its obligations under these Regulations in respect of any key function or other activity which it outsources.

(6) Outsourcing of any key function or other activity must not be undertaken in a way which–

- (a) impairs the quality of the system of governance of the IORP concerned;
- (b) unduly increases the operational risk;
- (c) impairs the ability of competent authorities to monitor the IORP's compliance its obligations; or
- (d) undermines continuous and satisfactory service to members and beneficiaries.

(7) An IORP must ensure the proper functioning of any outsourced activity through the process of selecting a service provider and the ongoing monitoring of the activities of that service provider.

(8) The GFSC may at any time require an IORP and any service provider to which it has outsourced any activity to provide the GFSC with any information it may reasonably require.

Investment management.

29. Nothing in these Regulations prevents an IORP from appointing, for the management of its investment portfolio–

- (a) a Gibraltar UCITS Management Company, an in-scope Gibraltar AIFM, a credit institution or an investment firm with Part 7 permission to carry on the regulated activity of portfolio management in paragraph 51 of Schedule 2 to the Act;
- (b) an insurance undertaking or an undertaking when carrying out the reinsurance and retrocession activities referred to in the Financial Services (Insurance Companies)

2019-26

Financial Services

**2020/042 Financial Services (Occupational Pensions Institutions)
Regulations 2020**

This version is out of date

Regulations 2020 which are excluded from the scope of paragraph 51 of Schedule 2 to the Act pursuant to paragraph 58 of Schedule 2 to the Act; or

- (c) an entity which is–
 - (i) responsible for operating or acting on behalf of an IORP in Gibraltar where the IORP does not have legal personality; and
 - (ii) authorised under Part 26 of the Act.

**PART 4
PRUDENTIAL REQUIREMENTS**

Technical provisions

Technical provisions.

30.(1) An IORP operating occupational pension schemes must establish at all times in respect of the total range of its pension schemes an adequate amount of liabilities corresponding to the financial commitments which arise out of its portfolio of existing pension contracts.

(2) Where an IORP operating occupational pension schemes provides cover against biometric risks or guarantees an investment performance or a given level of benefits, it must establish sufficient technical provisions in respect of the total range of those schemes.

(3) The calculation of technical provisions must take place–

- (a) each year; or
- (b) once every three years if–
 - (i) the IORP provides members and the GFSC with a certificate or report of adjustments for the intervening years; and
 - (ii) the certificate or report reflects the adjusted development of the technical provisions and changes in risks covered.

(4) The calculation of the technical provisions must be carried out and certified by an actuary, registered auditor or other specialist in that field, on the basis of actuarial methods which accord with the following principles–

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- (a) the minimum amount of the technical provisions must be–
 - (i) calculated by a sufficiently prudent actuarial valuation, taking account of all commitments for benefits and for contributions in accordance with the pension arrangements of the IORP; and
 - (ii) sufficient both for pensions and benefits already in payment to beneficiaries to continue to be paid, and to reflect the commitments which arise out of members' accrued pension rights;
 - (b) the economic and actuarial assumptions chosen for the valuation of the liabilities must be chosen prudently taking account, if applicable, of an appropriate margin for adverse deviation;
 - (c) the maximum rates of interest used must be chosen prudently and those prudent rates of interest must be determined by taking into account–
 - (i) the yield on the corresponding assets held by the IORP and the projected future investment returns;
 - (ii) the market yields of high-quality bonds or government bonds; or
 - (iii) a combination of sub-paragraphs (i) and (ii);
 - (d) the biometric tables used for the calculation of technical provisions must be based on prudent principles, having regard to the main characteristics of the group of members, the pension schemes and, in particular, the expected changes in the relevant risks; and
 - (e) the method and basis of calculation of technical provisions must in general remain constant from one financial year to another unless discontinuities are justified by change in the legal, demographic or economic circumstances underlying the assumptions.
- (5) This regulation applies subject to any rules made by the GFSC under the Act specifying–
- (a) the actuarial methods which are to apply for the purposes of sub-regulation (4); or
 - (b) additional or more detailed requirements which apply to the calculation of technical provisions.

Funding of technical provisions.

31.(1) An IORP must have at all times sufficient and appropriate assets to cover the technical provisions in respect of the total range of pension schemes operated.

(2) Subject to sub-regulation (3), the GFSC may allow an IORP, for a limited period, to have insufficient assets to cover the technical provisions.

(3) In any case to which sub-regulation (2) applies, the GFSC must require the IORP to must adopt a concrete and realisable recovery plan with a timeline in order to ensure that the requirements of sub-regulation (1) are met again.

(4) A recovery plan is subject to the following conditions—

- (a) the IORP must set up a concrete and realisable plan to re-establish the required amount of assets to cover fully the technical provisions in due time, which must be—
 - (i) approved by the GFSC; and
 - (ii) made available to members or, where applicable, their representatives;
- (b) in drawing up the plan, the specific situation of the IORP must be taken into account and, in particular, the asset/liability structure, risk profile, liquidity plan, the age profile of the members entitled to receive retirement benefits, start-up schemes and schemes changing from non-funding or partial funding to full funding;
- (c) in the event of a pension scheme winding up during the period permitted by the GFSC under sub-regulation (2), the IORP must—
 - (i) inform the GFSC;
 - (ii) establish a procedure for the transfer of the assets and corresponding liabilities of that scheme to another IORP, an insurance undertaking or other appropriate body;
 - (iii) disclose details of the procedure to the GFSC; and

This version is out of date

- (iv) make a general outline of the procedure available to members or, where applicable, their representatives in accordance with the principle of confidentiality.

Regulatory own funds

Regulatory own funds.

32.(1) An IORP operating pension schemes, where the IORP itself (rather than the sponsoring undertaking) underwrites the liability to cover against biometric risk or guarantees a given investment performance or given level of benefits, must hold on a permanent basis additional assets above the technical provisions to serve as a buffer.

(2) The amount of additional assets held must reflect the type of risk and the portfolio of assets in respect of the total range of schemes operated and those assets must be free of all foreseeable liabilities and serve as a safety capital to absorb discrepancies between the anticipated and the actual expenses and profits.

(3) Regulations 33 to 35 apply for the purposes of calculating the minimum amount of additional assets.

Solvency margin

Available solvency margin.

33.(1) In order to ensure the long-term sustainability of occupational retirement provision, an IORP to which regulation 32(1) applies must at all times and in respect of its entire business have an adequate available solvency margin which is at least equal to that required by this Act.

(2) The available solvency margin must consist of the assets of the IORP free of any foreseeable liabilities, less any intangible items, including—

- (a) the paid-up share capital or, in the case of an IORP taking the form of a mutual undertaking, the effective initial fund plus any accounts of the members of the mutual undertaking which fulfil the following criteria—
- (i) the memorandum and articles of association must stipulate that payments may be made from those accounts to members of the mutual undertaking only if this does not cause the available solvency margin to fall below the required level or, after the dissolution of the undertaking, where all the undertaking's other debts have been settled;

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- (ii) the memorandum and articles of association must stipulate, with respect to any payments to which sub-paragraph (i) applies (other than in respect of the individual termination of membership in the mutual undertaking) that the GFSC must be notified at least one month in advance and can prohibit the payment within that period; and
 - (iii) the relevant provisions of the memorandum and articles of association may be amended only after the GFSC has declared that they have no objection to the amendment, but without affecting the criteria in sub-paragraphs (i) and (ii);
 - (b) reserves (statutory and free) not corresponding to underwriting liabilities; and
 - (c) the profit or loss brought forward after deduction of dividends to be paid.
- (3) The available solvency margin must be reduced by the amount of own shares directly held by the IORP.
- (4) The available solvency margin may also comprise—
- (a) cumulative preferential share capital and subordinated loan capital up to 50% of the lesser of the available solvency margin and the required solvency margin, no more than 25% of which consists of subordinated loans with a fixed maturity or fixed-term cumulative preferential share capital, where binding agreements exist under which, in the event of the insolvency of the IORP, the subordinated loan capital or preferential share capital ranks after the claims of all other creditors and is not to be repaid until all other debts outstanding at the time have been settled;
 - (b) securities with no specified maturity date and other instruments, including cumulative preferential shares other than those referred to in paragraph (a), to a maximum of 50% of the available solvency margin, or the required solvency margin, whichever the lesser, for the total of such securities, and the subordinated loan capital referred to in that paragraph, if they fulfil the following conditions—
 - (i) they must not be repaid on the initiative of the bearer or without the prior consent of the GFSC;
 - (ii) the contract of issue must enable the IORP to defer the payment of interest on the loan;

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- (iii) the lender's claims on the IORP must rank entirely after those of all non-subordinated creditors;
- (iv) the documents governing the issue of the securities must provide for the loss-absorption capacity of the debt and unpaid interest, while enabling the IORP to continue its business; and
- (v) only fully paid-up amounts must be taken into account.

(5) For the purposes of sub-regulation (4)(a), subordinated loan capital must also fulfil the following conditions–

- (a) only fully paid-up funds may be taken into account;
- (b) for loans with a fixed maturity, the original maturity must be at least five years and no later than one year before the repayment date–
 - (i) the IORP must submit to the GFSC for its approval a plan showing how the available solvency margin will be kept at or brought to the required level at maturity, unless the extent to which the loan may rank as a component of the available solvency margin is gradually reduced during at least the five years before the repayment date; and
 - (ii) the GFSC may authorise the early repayment of such loans on the application of the issuing IORP if its available solvency margin will not fall below the required level;
- (c) loans the maturity of which is not fixed must be repayable only subject to five years' notice unless–
 - (i) the loans are no longer considered as a component of the available solvency margin; or
 - (ii) the prior consent of the GFSC is specifically required for early repayment,

and in the latter event the IORP must notify the GFSC at least six months before the date of the proposed repayment, specifying the available solvency margin and the required solvency margin both before and after that repayment and the GFSC may only authorise repayment where the IORP's available solvency margin will not fall below the required level;

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- (d) the loan agreement must not include any clause providing that in specified circumstances, other than the winding-up of the IORP, the debt will become repayable before the agreed repayment dates; and
 - (e) the loan agreement may be amended only after the GFSC has confirmed that it has no objection to the amendment.
- (6) Where an IORP makes an application to the GFSC, in the form it directs and supported by the evidence it may reasonably require, the GFSC may agree that the available solvency margin may also comprise–
- (a) where Zillmerising is not practised or where, if practised, it is less than the loading for acquisition costs included in the premium, the difference between a non-Zillmerised or partially Zillmerised mathematical provision and a mathematical provision Zillmerised at a rate equal to the loading for acquisition costs included in the premium;
 - (b) any hidden net reserves arising out of the valuation of assets, if those hidden net reserves are not of an exceptional nature;
 - (c) one half of the unpaid share capital or initial fund, once the paid-up part amounts to 25% of that share capital or fund, up to 50% of the available or required solvency margin, whichever is the lesser.
- (7) The figure referred to in sub-regulation (6)(a) must not exceed 3.5% of the sum of the differences between the relevant capital sums of life insurance and occupational retirement provision activities and the mathematical provisions for all policies for which Zillmerising is possible and the difference must be reduced by the amount of any undepreciated acquisition costs entered as an asset.

Required solvency margin.

34.(1) The required solvency margin must be determined as set out in sub-regulations (2) to (6) according to the liabilities underwritten.

(2) The required solvency margin is equal to the sum of the following results–

(a) the first result:

a 4% fraction of the mathematical provisions relating to direct business and reinsurance acceptances gross of reinsurance cessions must be multiplied by the

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ratio, which must not be less than 85%, for the previous financial year, of the mathematical provisions net of reinsurance cessions to the gross total mathematical provisions;

(b) the second result:

for policies on which the capital at risk is not a negative figure, a 0.3% fraction of the capital underwritten by the IORP must be multiplied by the ratio, which must not be less than 50%, for the previous financial year, of the total capital at risk retained as the IORP's liability after reinsurance cessions and retrocessions to the total capital at risk gross of reinsurance;

for temporary assurances on death—

- (i) of a maximum term of three years, that fraction must be 0.1%; and
- (ii) of a term of more than three years but not more than five years, that fraction must be 0.15%.

(3) For supplementary insurances referred to in regulation 4(5)(a)(iii) of the Financial Services (Insurance Companies) Regulations 2020, the required solvency margin must be equal to the required solvency margin for IORPs set out in regulation 35.

(4) For capital redemption operations referred to in regulation 4(5)(b)(ii) of the Financial Services (Insurance Companies) Regulations 2020, the required solvency margin must be equal to a 4% fraction of the mathematical provisions calculated in accordance with sub-regulation (2)(a).

(5) For operations referred to in regulation 4(5)(b)(i) of the Financial Services (Insurance Companies) Regulations 2020, the required solvency margin must be equal to 1% of their assets.

(6) For assurances linked to investment funds to which regulation 4(5)(a)(i) and (ii) of the Financial Services (Insurance Companies) Regulations 2020 applies and for operations referred to in regulation 4(5)(b)(iii) and (iv) of those Regulations, the required solvency margin must be equal to the sum of the following—

- (a) in so far as the IORP bears an investment risk, a 4% fraction of the technical provisions, calculated in accordance with sub-regulation (2)(a);

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- (b) in so far as the IORP bears no investment risk but the allocation to cover management expenses is fixed for a period exceeding five years, a 1% fraction of the technical provisions, calculated in accordance with sub-regulation (2)(a);
- (c) in so far as the IORP bears no investment risk and the allocation to cover management expenses is not fixed for a period exceeding five years, an amount equivalent to 25% of the net administrative expenses of the previous financial year pertaining to that business;
- (d) in so far as the IORP covers a death risk, a 0,3% fraction of the capital at risk calculated in accordance with sub-regulation (2)(b).

Required solvency margin for the purpose of regulation 34(3).

35.(1) The required solvency margin must be determined on the basis of—

- (a) the annual amount of premiums or contributions; or
- (b) the average burden of claims for the past three financial years.

(2) The amount of the required solvency margin must be equal to the higher of the two results as set out in sub-regulations (3) and (4).

(3) The premium basis must be calculated using the higher of gross written premiums or contributions, calculated as follows, and gross earned premiums or contributions—

- (a) the premiums or contributions (inclusive of charges ancillary to premiums or contributions) due in respect of direct business in the previous financial year must be aggregated;
- (b) to that sum there must be added the amount of premiums accepted for all reinsurance in the previous financial year;
- (c) from that sum there must then be deducted the total amount of premiums or contributions cancelled in the previous financial year, as well as the total amount of taxes and levies pertaining to the premiums or contributions entering into the aggregate;
- (d) the amount so obtained must be divided into two portions, the first extending up to €50,000,000 and the second portion comprising the excess, and 18% of the first portion and 16% of the second portion must be added together; and

- (e) the sum so obtained must be multiplied by the ratio existing in respect of the sum of the previous three financial years between the amount of claims remaining to be borne by the IORP after deduction of amounts recoverable under reinsurance and the gross amount of claims, but that ratio must be no less than 50%.
- (4) The claims basis must be calculated as follows—
- (a) the amounts of claims paid in respect of direct business (without any deduction of claims borne by reinsurers and retrocessionaires) in the periods specified in sub-regulation (1) must be aggregated;
 - (b) to that sum there must be added the amount of claims paid in respect of reinsurances or retrocessions accepted during the same periods and the amount of provisions for claims outstanding established at the end of the previous financial year both for direct business and for reinsurance acceptances;
 - (c) from that sum there must be deducted the amount of recoveries effected during the periods specified in sub-regulation (1);
 - (d) from the sum then remaining, there must be deducted the amount of provisions for claims outstanding established at the commencement of the second financial year preceding the last financial year for which there are accounts, both for direct business and for reinsurance acceptances;
 - (e) one third of the amount so obtained must be divided into two portions, the first extending up to €35,000,000 and the second comprising the excess, and 26% of the first portion and 23% of the second portion must be added together; and
 - (f) the sum so obtained must be multiplied by the ratio existing in respect of the sum of the previous three financial years between the amount of claims remaining to be borne by the IORP after deduction of amounts recoverable under reinsurance and the gross amount of claims, but that ratio must be no less than 50%.
- (5) Where the required solvency margin calculated in accordance with sub-regulations (2) to (4) is lower than the required solvency margin of the preceding year, the required solvency margin must be at least equal to the required solvency margin of the preceding year, multiplied by the ratio of the amount of the technical provisions for claims outstanding at the end of the previous financial year and the amount of the technical provisions for claims outstanding at the beginning of the previous financial year and, in those calculations, technical provisions must be calculated net of reinsurance but the ratio may be no higher than 1.

**PART 5
SUPERVISION**

Information to be provided to the GFSC.

36.(1) Without limiting any of its powers under the Act, the GFSC may at any time require—

- (a) an IORP;
- (b) its administrative, management or supervisory body; or
- (c) any person who—
 - (i) effectively runs the IORP; or
 - (ii) carries out any of its key functions,

to provide the GFSC with any information that it may reasonable require.

(2) The information which the GFSC may require under subsection (1) includes—

- (a) information about any business matter, including any business document;
- (b) information to enable the GFSC to supervise the relationship between the IORP and any company or other IORP to which it has outsourced or re-outsourced)—
 - (i) any key function; or
 - (ii) any other activity which may influence the IORP’s financial situation or be of material relevance to its effective supervision;
- (c) any of the following documents—
 - (i) the own-risk assessment;
 - (ii) the statement of investment-policy principles;
 - (iii) the annual accounts and the annual reports, and
 - (iv) all other documents necessary for the purposes of supervision.

(3) The GFSC may specify the documents which are necessary for the purposes of supervision, including—

- (a) internal interim reports;
- (b) actuarial valuations and detailed assumptions;
- (c) asset-liability studies;
- (d) evidence of consistency with the investment-policy principles;
- (e) evidence that contributions have been paid in as planned; and
- (f) reports by the persons responsible for auditing the annual accounts referred to in regulation 26(3).

(4) A person authorised by the GFSC may at any reasonable time enter premises (other than a dwelling) of an IORP or where outsourced activities are conducted on the IORP's behalf, for the purpose of verifying that activities are being conducted in accordance with these Regulations and the Act.