

## I. Introduction

The Core Principles provide the fundamental framework and guidance for the regulation of privately managed occupational pension systems. The purpose of the Methodology presented in this paper is to provide a structured approach to the assessment of a jurisdiction’s private pension system in relation to the Core Principles.

Originally, the Core Principles were primarily designed for occupational pension arrangements. However, the Core Principles – with the exception of most Core Principle #3 - are also applicable to personal pension plans secured via pension funds. Therefore, references in the Core Principles or the Methodology to “occupational pensions” may also be considered in the context of personal pension plans should they be relevant in the jurisdiction under assessment.

### **The use and scope of this methodology**

The Methodology is intended to underpin an assessment of the implementation of the Core Principles in a jurisdiction and to provide a framework for policy discussions. The ultimate purpose of an assessment is to identify the nature and extent of specific strengths and weaknesses in private pensions systems, and thereby, underpin policy dialogue that will identify reform priorities leading to the improvement of private pensions governance, regulation and supervision.

This Methodology emphasises “functional equivalence”. Functional equivalence means that there are many different ways, institutions, laws, etc, for achieving the outcomes that are advocated by the Core Principles and, as such, implementation of the Core Principles needs to be adapted to national circumstances. It is important to note that the criteria to judge whether a principle has been implemented that are presented in this Methodology are intended to evaluate the effectiveness and efficiency of current arrangements in terms of achieving desirable outcomes, rather than solely to evaluate the laws that may be in place.

The approach of the Methodology to making an assessment is principally qualitative. As such, the assessment cannot be reduced to a quantitative score or set of quantitative scores; however certain quantitative measures may be taken into account. The Methodology does not make use of indicators based on the number of “yes” and “no” answers for the reason that the importance of some responses will be quite different across countries.

The Methodology calls for an approach where a qualitative assessment of the private pensions system in a jurisdiction is first evaluated in relation to each of the Core Principles in isolation based on a rating system which is described in the section below. After the individual Core Principles evaluations have been made, a final holistic evaluation should be presented that takes into account the private pensions system as a whole in relation to all the Core Principles.

### **The grading structure**

The Core Principles have associated Implementing Guidelines which go into deeper detail than the overarching Core Principle. The Methodology focuses on the Implementing Guidelines since they better reflect the operational outcomes that are regarded as important for the overarching Core Principle. Where the reviewer considers it important to form a judgement about a specific Core Principle as a whole, in the absence of good arguments to the contrary, the overall judgement should reflect the weakest Implementing Guideline.

As an aid to the assessor in their evaluation, the Core Principles and their Implementing Guidelines are accompanied by commentary. The purpose of the commentary is to provide clarification. They are also intended to make the evaluation of a jurisdiction’s private pension system more specific and easier to verify by a reviewer for effective evaluation of implementation, while preserving functional equivalence. The commentary also provides important guidance for detailed fact finding questions and how responses can be used to form a judgement. However, the commentary is an aid to making an assessment and is not a substitute for the Core Principles, the Implementing Guidelines or for a careful judgement about actual outcomes.

To aid the process of assessment, the Methodology follows an assessment scale similar to that used by the other international standard setters, which classify according to the following:

- Fully implemented
- Broadly implemented
- Party implemented
- Not implemented
- Not applicable

Table 1. **Summary of Assessment Scheme**

Assessment Scheme	Summary
Fully Implemented	<p>The OECD Principle is fully implemented in all material respects with respect to all of the applicable Implementing Guidelines. Where the Implementing Guidelines refer to standards (i.e. practices that should be required, encouraged or, conversely, prohibited or discouraged), all material aspects of the standards are present. Where the Implementing Guidelines refer to practices, the relevant practices are widespread. Where the Implementing Guidelines refer to enforcement mechanisms, there are adequate, effective enforcement mechanisms. Where the Implementing Guidelines refer to remedies, there are adequate, effective and accessible remedies.</p>
Broadly Implemented	<p>A Broadly Implemented assessment is likely appropriate where one or more of the applicable Implementing Guidelines are less than fully implemented in all material respects, but, at a minimum:</p> <ul style="list-style-type: none"> <li>• All of the applicable Implementing Guidelines are implemented to some extent;</li> <li>• The core elements of the standards are present (<i>e.g.</i> general standards may be in place although some of the specific details may be missing); and</li> <li>• Incentives and/or disciplinary forces are operating with some effect to encourage at least a majority of market participants, including significant enterprises, to adopt the recommended practices.</li> </ul>

Partly Implemented

A Partly Implemented assessment is likely appropriate in the following situations:

- One or more core elements of the standards described in a minority of the applicable Implementing Guidelines are missing, but the other applicable Implementing Guidelines are fully or broadly implemented in all material respects (including those aspects of the Implementing Guidelines relating to governance practices, enforcement mechanisms and remedies);
- The core elements of the standards described in all of the applicable Implementing Guidelines are present, but incentives and/or disciplinary forces are not operating effectively to encourage at least a significant minority of market participants to adopt the recommended practices; or,
- The core elements of the standards described in all of the applicable Implementing Guidelines are present, but implementation levels are low because some or all of the standards are new, it is too early to expect high levels of implementation and it appears that the reason for low implementation levels is the newness of the standards (rather than other factors, such as low incentives to adopt the standards).

Not Implemented

A Not Implemented assessment is likely appropriate where there are major shortcomings, for instance, where:

- The core elements of the standards described in a majority of the applicable Implementing Guidelines are not present; and/or,
- Incentives and/or disciplinary forces are not operating effectively to encourage at least a significant minority of market participants to adopt the recommended practices.

Not Applicable

This assessment is appropriate where an OECD Principle (or one of the Implementing Guidelines) does not apply due to structural, legal or institutional features (*e.g.* defined benefit plans may not exist in a particular jurisdiction).

## The reviewer and the assessment process

The process of assessing each of the Core Principles requires a judgemental weighting of numerous elements that only qualified assessors with practical experience can provide. Many reviewers of standards seek to ensure both this and inter-jurisdictional consistency by including in their teams members with broad international experience. Under all circumstances, in-depth consultations with individuals and constituencies having first-hand experience of the assessed jurisdiction is an absolute necessity and may, in addition to relevant authorities, include auditors, trustees, employers, actuaries, researchers, *etc.*

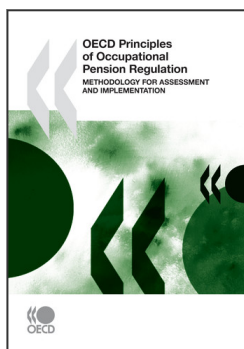
## The reporting format for an assessment using this methodology

A formal assessment of a jurisdiction's private pensions system may be most appropriately served by a written report. However, depending on the intended use of the assessment, the format is open to the choice of the user of the Methodology. Note that any formal assessment in the form of a written report should, at a minimum, include a short executive summary followed by a summary of key findings and recommendations. The main body of the accompanying documentation should also include a table summarising the assessments of each Core Principle and Implementing Guideline. The report should also include a holistic evaluation of the private pensions system taking into account all the Core Principles.

It is important to note that specific formats may be required if the assessment is for certain specific purposes.

## Limitations of an assessment

Even if a jurisdiction might be implementing the individual principles or the Core Principles as a whole, there may be considerable room for improvement. The Core Principles are not intended to substitute for government, quasi-governmental or private initiatives to develop more detailed “best practices” in the regulation and supervision of private pensions, but are meant to provide guidance and a framework around which pensions legislation can be structured. Government, quasi-governmental or private initiatives might be especially important in those jurisdictions there is significant variation in pension practices and where focusing this distribution could improve overall performance and security. These issues are not covered explicitly by the Methodology although they should form an important component of policy dialogue.



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