



## National Pension Commission

Plot 2774, Shehu Shagari Way

P M B 2170, Garki

Maitama

Abuja

Guidelines for the  
Operations of PFCs

RR/02/PFC

00234 9- 4133363, 4133364, 6720091, 4133398

# GUIDELINES FOR THE OPERATIONS OF PENSION FUND CUSTODIANS

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## 1.0 INTRODUCTION

- 1.1 The purpose of this document is to provide the basic procedures that shall to be adhered to for services provided by Pension Fund Custodians (PFCs) in terms of the Pension Reform Act 2004 (Act).
- 1.2 In developing these requirements, the National Pension Commission (Commission) has avoided taking overly prescriptive approach and has, instead, provided PFCs with minimum requirements as to how it could achieve the prudential objectives of the requirements.
- 1.3 Furthermore, these requirements are not intended to be all encompassing, references to the Act, and further regulations by the Commission shall always be taken into consideration.

## 2.0 RULES OF GENERAL APPLICATIONS

- 2.1 The business of the PFC shall be to provide custody of pension fund assets, to hold and deal with such assets strictly in accordance with directions given by the PFAs and Commission in conformity of the Act.
- 2.2 The pension fund assets in custody shall be kept separate and distinct from the Custodians' own assets as specified in 4.01 to 4.16 below.
- 2.3 The services to be provided by PFC would include custody, investment accounting, performance measurement, risk management and compliance reporting.
- 2.4 The PFC shall bear the full replacement cost, including any incidental costs (as opposed to the value of the pension fund assets at the time the loss was identified) in the event of loss of pension fund assets resulting directly or indirectly from fraud, negligence, willful default, misconduct or error by the PFC or its employees or agents.

### **3.0 COLLECTION PROCESSES**

3.1 Not later than 7 working days after payment of salaries, the employer shall lodge the contribution into an account in a bank (receiving bank) specified by the PFA (i.e. the PFC's account). For the lodgment to be accepted, it must be accompanied by the Schedule of Contributions, CL/FM/01(Appendix 1), which could either be in soft or hard copy.

3.1.1 The employer will simultaneously send a copy of the Schedule of Contributions, CL/FM/01, to the PFA and the bank into which the contributions is paid.

3.1.2 In not more than 24 hours after the lodgment, the PFC shall advise the PFA of the lodgment.

3.1.3 The receiving bank shall, on behalf of the PFC, credit the individual Retirement Savings Account with the respective amounts due to each of them. This information should be seamlessly transmitted to the database of the PFC.

3.1.4 Upon receipt of value, the PFC simultaneously notifies the PFA and the National Data Bank of the receipt of value and the details.

3.1.5 The PFA notifies the NDB of details of contributions received.

3.1.6 The PFA validates contributions received by reconciling it with expected contributions and addresses discrepancies highlighted in the exceptional report automatically generated.

### **4.0 MANNER OF DEALING WITH PENSION ASSETS OF CONTRIBUTORS**

The PFC shall deal, as a minimum, with the pension fund assets it holds on behalf of PFA(s) as follows:

- 4.01 The PFC shall open a trust account or accounts for the deposit of contributions with one or more banks. The PFC shall seek the Commission's prior approval for the appointment of a receiving bank, other than its parent.
- 4.02 The PFC shall forthwith deposit in the account or accounts opened in paragraph 4.01 any pension contribution which is accepted or received by it.
- 4.03 The PFC shall deal with money so deposited in accordance with directions given to it by its PFA(s) from time to time and regulations issued by the Commission.
- 4.04 Marketable securities shall be registered in the joint name of the PFC and PFA in the format, [Abc PFC for Xyz PFA](#).
- 4.05 Marketable securities shall be stored and held in safe and secure custody or electronically administered and maintained and shall be protected by adequate and appropriate security and administrative systems.
- 4.06 The PFC shall collect dividends and interest relating to all marketable securities held on behalf of PFAs, verify the calculations and ensure timely payment thereof and convey all details of any options and rights issues to PFA(s).
- 4.07 The PFC shall have the authority to exercise any voting rights attached to shares registered in the joint name of the PFC and PFA subject to PFA's voting instructions and regulations issued by the Commission.
- 4.08 Immovable property shall be registered in the joint name of the PFC and PFA in the format, [Abc PFC for Xyz PFA](#).
- 4.09 Immovable property shall be managed and secured in accordance with sound property management practices in relation to the particular property concerned, and shall be maintained in a like manner.
- 4.10 Any title deed, certificate or document pertaining to immovable property shall be dealt with as if it were a marketable security.

- 4.11 The PFC shall collect all economic rents relating to immovable property, excluding the service charge, which should be separately disbursed by the tenants, directly to the estate manager.
- 4.12 The PFC shall keep and maintain proper books of account and other records necessary to identify each asset of each PFA and to discharge its obligations to its PFA(s).
- 4.13 The PFC shall forthwith provide a PFA with any information reasonably required by the PFA concerning pension fund assets held on its behalf.
- 4.14 The PFC shall account regularly to the PFA on pension fund assets held by it on its behalf and shall include in such accounting all movements and changes in the holding concerned that occurred since the date on which the holding commenced or immediately prior to the accounting date, as the case may be.
- 4.15 The PFC shall make full identification of the pension fund assets held on behalf of the PFA in its books of account and internal and external audit processes should be able to verify this.

## 5.0 BOOKS OF ACCOUNTS, RECORDS AND REPORTING REQUIREMENTS

- 5.1 A PFC shall develop an accounting system that will ensure interface with all reporting requirements of the Commission.
- 5.2 A PFC shall maintain adequate and proper books of accounts and records that cover the entire spectrum of its services, including but not limited to the following:

### 5.2 **Custody**

- 5.2.1 The PFC shall maintain a *Pension Fund Assets Register*, in the name of each PFA for which it acts as custodian. The Register shall contain the following

minimum information in respect of all securities under custody – unique identification number of the security, beneficiary, value of the security/asset, date deposited in the vault, and date withdrawn from the vault.

- 5.2.2 The PFC shall keep detailed records of *income collections* for each PFA on a periodic basis (at least monthly). The contents of the report should include related investment and respective title document reference, principal amount or value of the securities, expected income and variance (if any). The report should be categorized under income types (i.e. dividends, interest, etc.).
- 5.2.3 On a periodic basis, the PFC shall issue exception report(s) on “*Outstanding Income*”. The Report shall be derived from the PFC’s independent computation of income due from all investments vis-à-vis income collections in that particular period. The report, which should be on a PFA by PFA basis, shall be prepared at least monthly.
- 5.2.4 A *Proxy Register* shall be maintained to capture all meetings (i.e. Annual General Meetings and Extraordinary General Meetings) and the PFA’s voting instructions and major decisions taken at such meetings that could affect the investment.

### **5.3 Investment Accounting**

- 5.3.1 Investment accounting is a service whereby the PFC provides the primary book of records through a service that delivers a full accrual trade date accounting treatment of all the pension fund assets and liabilities associated with the investment portfolio of the PFA.
- 5.3.2 An *Investment Register* shall be maintained to record all investments effected on behalf of each PFA. The minimum information to be contained in the Register shall include description of the investment, effective date, amount, interest rate (in the case of securities) and remarks.
- 5.3.3 Double entry accounting records shall be maintained in accordance with the Statement of Accounting Standards (SAS) and fund accounting principles. The

records shall capture all investments and their effective dates, accrued interest income, proceeds from sale of investments (where applicable), etc.

5.4 A PFC's records must:

- a) be kept in the English language;
- b) be maintained in Naira (₦);
- c) be up to date and must disclose, with reasonable accuracy at any time, the PFC's financial position;
- d) demonstrate continuing compliance with the provision of the Act and the regulations issued by the Commission;
- e) provide information, which
  - the PFC requires to prepare financial statements and periodic reports as may be required by the Commission;
  - the PFC's auditor needs to express an opinion to issue its report; and
- f) be prepared in accordance with International Accounting Standards and Statement of Accounting Standards, provided that they are not inconsistent with the provisions of the Act and regulations issued by the Commission.

5.5 Additionally, a PFC shall comply with the following audit requirements:

- a) Cause its accounts to be audited by a qualified external auditor approved by the Commission in line with Section 56(2) of the Act.
- b) Submit the audited accounts in a format prescribed by the Commission to the Commission for approval in accordance with Section 56(3)a of the Act.
- c) Publish the approved audited accounts in accordance with Section 56(3)b of the Act.

- d) Exhibit the approved audited accounts in accordance with Section 56(3)c of the Act.
  - e) Submit an annual report to the Commission in accordance with the provisions of Section 57 of the Act, including any other report that may be specified by the Commission, from time to time.
- 5.6 Each PFC shall, on a regular basis, submit returns on the pension fund to the Commission, in line with the “Formats and Manual of Instruction for Financial Reports on Pension Funds Under Custody” prescribed by the Commission.
- 5.7 The PFC shall also, on a regular basis, submit returns on its own operations to the Commission in line with the “Formats and Manual of Instruction for Financial Reports of Pension Fund Custodians” prescribed by the Commission.

## **6.0 COMPLIANCE AND REPORTING REQUIREMENTS**

- 6.1 Effective monitoring of portfolios consistent with investment limitations imposed by the PFA’s specific investment policy and/or rules and regulations issued by the Commission;
- 6.2 Each PFC shall put in place an Investment Guideline Compliance procedure, which could control the restrictions on the maximum allocations to eligible asset classes/sectors as a percentage of the portfolio and the maximum allocation per issuer at each rating category and their respective Naira value;
- 6.3 The PFC must establish timely flagging of compliance breaches, methods of notification of compliance breaches, tools of follow up of violations or warnings;
- 6.4 Each breach shall be brought to the attention of the board of the PFA or its Compliance Officer for consideration and to the Commission within a reasonable time of the PFC becoming aware of the breach;



6.5 In addition to other reporting requirements that may be prescribed by the Commission from time to time, the following are the minimum reports that a PFC will render to the Commission:

6.51 **Accounting.** Balance Sheet, Income Statement, Realized Gains and Losses, Unrealized Gains and Losses, Cash Flows;

6.52 **Performance.** Performance Measurement and Attribution;

6.53 **Custody.** Holdings, Cash Availability, Cash Projection, End of Day Cash Balances, Failed Trades;

6.54 **Compliance.** Reports as may be specified by the Commission's Investment Guidelines;

6.55 **Risk Management.** Activity Data, Analytic Data (interest rate risk, scenario analysis/stress testing);

6.56 **Reconciliation of Own Systems.** Accounting with Performance, Accounting with Custody, Custody with Compliance, Accounting/Performance with Risk Management;

6.57 **Reconciliations with PFAs.** Accounting Income, Net Assets by Balance Sheet Category, Performance Returns (actual and benchmark), Holdings (including cash), Compliance exceptions.

## 7.0 PAYMENT OF FEES, LEVIES AND COMMISSIONS

7.1 The PFC shall pay fees, fines, penalties, levies and commissions as may be specified and certified by the Commission from time to time.

## **8.0 ICT REQUIREMENTS**

8.1 The following are the ICT guidelines serving as minimum IT requirements for licensed PFCs.

8.2 Pension processes require transactions and associated data to flow seamlessly between the Commission, PFAs and PFCs.

8.3 The key issues to be considered for efficient information flow and effective system interoperability among the scheme's stakeholders are:

- System Management: Hardware, Operating System, Application, Database, Storage and Backup.
- Network Management: Telecommunication infrastructure management, configuration management, performance and security.

8.4 Hardware

The desired system shall have all the standard specifications found in a server used for mission critical operations like Pension Administration Package system, including a high degree of interoperability with the other RISC base system and devices.

8.5 Servers

As a minimum requirement, each PFC shall have a high grade Application Server, two Database Servers, one to serve as a backup, and a Communication Server.

8.6 Auxiliary Devices

1. Security Firewall.
2. Intrusion Detection Devices.
3. Modems & Routers.
4. Enterprise Antivirus.

## 8.7 Communication

1. VPN link to Commission (through any of the appropriate medium - VSAT, Leased Line, etc.)
2. Broadband Internet access.

## 8.9 Collection/Remittance

Collection shall be operated through, amongst others, collaboration with existing payment platform such as switching systems. Consequently, the system is expected to have the capability for integration with major e-payment platforms.

## 8.10 Disaster Recovery

The key disaster recovery methods shall include:

- Mirroring of the database with RAID storage implementation.
- Complete redundancy of all components of the server.
- A standby server to take over the functional server in case of server failure.
- Regular backup of the database onto a different physical location in the form of Compact Disk or DAT Media.

## 8.11 Security Features

The key security features shall include:

1. Biometrics enabled user security features.
2. Access Permissions restricted to the authenticated users only.
3. Data Security to be done at:
  - Data entry level restricted to privileged group only.
  - Storage level.

## 8.12 Software

All the standard features found in a Pension Administration Package System, including a high degree of integration with the other standard Front Office Operations and Back Office Applications, are expected. The system shall be based on standard ODBC database platform running on a legacy Operating System at the back end.

Item No	Requirement/ Feature
1.	The system shall be capable of interfacing with other external systems and reduce the dependency of processes on manual intervention and paper flows.
2.	Utilization of open architecture tools for scalability and compatibility with other systems (web, legacy systems) or databases (Oracle, DB2, Ingress Server 7, Sybase).
3.	The system shall be easily expandable to accommodate a database that supports a growing number of contributors.
4.	<p>The system shall consist of the following modules, among others:</p> <ul style="list-style-type: none"> <li>i) Registration Module <ul style="list-style-type: none"> <li>▪ PFAs.</li> <li>▪ Agents (where applicable).</li> </ul> </li> <li>ii) Custody Module</li> <li>iii) Settlement Module</li> <li>iv) Corporate Actions Module</li> <li>v) Performance Measurement Module</li> <li>vi) Compliance Reporting System</li> <li>vii) Executive Information System.</li> </ul>
5.	All the modules of the system shall be tightly integrated with one another. A multi-tier business architecture, which offers differentiated access security and 'look and feel' for different types of users.
6.	The system shall be easy to use, as would be reflected by an intuitive user interface and helpful tools like wizards, to introduce key concepts to new users.
7.	The system shall be web-enabled with web transaction enablement.
8.	Ability of the system to link to an Intranet site and facilitate the sending of information to the system and the obtaining of reports and other information from the system.
9.	The system shall offer a very high degree of reporting flexibility and offer a range of easily customizable pre-defined report templates with automated procedures, e.g. wizards, to tailor reports (content and formatting) to suit individual preferences.
10.	The system shall have facility to accept and validate files of postings generated by external systems.
11.	The system shall have the ability to output reports into spreadsheet format.
12.	The system shall be able to link directly to a standard word processing package that can enable mail merging and other office automation operations.
13.	User defined standard reports shall be available on line.

Item No	Requirement/ Feature
14.	The system shall be available in a full client / server version, using an industry standard database at the server.
15.	The system shall be capable of performing selective, incremental and full back up and recovery.
16.	The system shall have full support for multi-user operation.
17.	The system shall have the option to post on a batch basis, with a full range of batch handling facilities, including the ability to print unfinished-posted batches, allow users to create but not post batches, with only authorized users permitted to post batches.
18.	The system shall have the option to allow specified users to post on a real time basis, with each transaction posted to the system as it is entered.
19.	The system shall have the facility to attach free text memorandum notes to any header record/transaction, and to view such notes on demand.
20.	The system shall have ability to print hard copy output on either pre-printed or blank stationery.
21.	The system shall have a context sensitive on line help facility, with help available at field-level.
22.	Ability to capture contributions off-line either on diskettes, flash drive, CDs or any other storage media and update at a later time.
23.	Capability to automatically check that the value of the sums collected and that of the instruments of payment is the same (equal).
24.	Capability to distinguish a batch of transaction to be made up of each schedule from a given employer.
25.	Capability to ensure that each batch balances, before acceptance into the database.
26.	The system shall provide sufficient security of access to allow user accounts to be defined for each type of user and segregation of duties to be maintained.
27.	The system shall be able to maintain a permanent log file which keeps information of all 'creates', 'edits', 'deletes' or accesses. Ability to access log files only by authorized personnel. Ability of information stored to include time and date of operation, function performed, and user identification.
28.	Ability to produce exception reports on users who modify the system configuration and static data.
29.	The system should be web enabled, to facilitate interaction with other stakeholders (the Commission & PFAs).
30.	Capability to integrate with the National Databank using standard tools.
31.	Automated updating of the contributor's portfolios with transactions.
32.	Enable computation of financial ratios.

Item No	Requirement/ Feature
33.	Enable Comparison of each investment portfolio against regulation limits.
34.	Enable analysis of : <ul style="list-style-type: none"> <li>▪ Asset quality of PFAs portfolio.</li> <li>▪ Asset concentration of PFAs portfolio.</li> <li>▪ Maturity mismatch.</li> <li>▪ Overall rate of return of investment portfolio.</li> <li>▪ Return of each asset class.</li> </ul>
35.	The system shall be able to generate report into different standard format, e.g. XML, for transition to a designated location.
36.	The system shall enable a rules based “engine” enabling flexible and innovative (pension) product design for the provision of an excellent platform for both today’s business requirements and for your future needs.

## 9.0 CUSTODY CONTRACT BETWEEN PFAS AND PFCS

- 9.1 All forms of agreement and contracts entered between the PFC and PFAs shall be executed in Nigeria. As a minimum, the following shall be contained in the custodial contract between the PFC and PFAs:
- 9.2 The nature of the arrangement and the obligations of each party.
- 9.3 How the PFC will provide assurances to the PFA that it meets the applicable standards set out from time to time by the Commission.
- 9.4 That the PFC is prohibited from taking a charge, mortgage, lien or other encumbrance over, or in relation to, pension fund assets of the PFA. The PFC may, however, do this for expenses and outlays made within the terms of the custodial contract (but not including unpaid custody fees).
- 9.5 The Agreement shall clarify how the PFA will give authorized instructions to the PFC, and how and when the PFC will give periodic reports, including notifications of any transfers to, or from, the PFA’s account.

- 9.6 The Agreement shall provide that the PFC accepts responsibility for liability arising from its failure or failure of its agents or staff to exercise reasonable care, based on the standards applicable in the relevant market.
- 9.7 The Agreement shall provide that in the event the PFA suffers loss due to those acts / omissions for which the PFC is liable, or accepts liability for, the PFC will make the PFA 'whole'.
- 9.8 The Agreement shall in the minimum, provide that the contract with the PFC, subject to the provisions of the Act and other rules issued by the Commission, can be terminated by the PFA where it has reasonable grounds for believing that the PFC is not complying with, or is unlikely to comply with, the requirements of the contract or relevant laws and regulations.
- 9.9 The Agreement shall provide that upon termination of the contract, the pension fund assets must be transferred, as the PFA lawfully directs, to another PFC. The timeframe within which the pension fund assets are to be transferred after termination of the contract shall be defined the Commission from time to time.
- 9.10 The Agreement shall also provide for other obligations of the parties at termination of the contract, including the payment of any outstanding fees and charges.