SUMMARY REPORT ON EFFECTIVE APPROACHES TO SUPPORT IMPLEMENTATION OF THE G20/OECD HIGH-LEVEL PRINCIPLES ON LONG-TERM INVESTMENT FINANCING BY INSTITUTIONAL INVESTORS

OECD REPORT TO G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

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G20/OECD TASK FORCE ON INSTITUTIONAL INVESTORS AND LONG TERM FINANCING

Summary Report on Effective Approaches to Support Implementation of the G20/OECD High Level Principles on Long-Term Investment Financing by Institutional Investors

I. Introduction

At the G20 Leaders Summit in St Petersburg in September 2013, G20 Leaders endorsed the High-Level Principles on Long-Term Investment Financing by Institutional Investors, thereby recognising the importance of establishing conditions that could promote the role institutional investors could play as sources of long-term investment financing. At the same time, G20 Leaders asked their Finance Ministers and Central Bank Governors to identify approaches to effectively implement the Principles, working with the OECD and other interested participants by the next Leaders' Summit, in November 2014 in Brisbane, Australia.

The G20/OECD High Level Principles on Long-Term Investment Financing by Institutional Investors (the "High Level Principles" or "Principles") are designed to assist interested jurisdictions in facilitating and promoting long-term investment by institutional investors. The High-Level Principles are intended to help policy makers design a policy and regulatory framework that encourages institutional investors to act in line with their investment horizon and risk-return objectives, thereby enhancing their capacity to provide a stable source of capital for the economy and facilitating the flow of capital into ***long-term investments***. The High-Level Principles address regulatory and institutional impediments to long-term investment by institutional investors and aim to avoid interventions that may distort the proper functioning of markets. The Principles provide general orientation and guidance and are not meant to be exhaustive. Instead, the Principles focus on selected major issues. They are intended to be consistent with existing regulatory standards for institutional investors and to complement existing international principles and/or guidelines that may apply to particular categories of investors.

In order to identify effective ways to implement the Principles, the G20/OECD Task Force on Institutional Investors and Long-Term Financing (the "Task Force") decided in November 2013 to focus initially on selected high-priority Principles to enable the Task Force, the OECD and G20 membership and other interested participants to utilise their resources effectively. The Task Force decided in this context to focus initially on a few of the principles that related most closely to G20 priorities for investment and required delivery in 2014 to achieve outcomes by the September G20 Finance Ministers and Central Bank Governors Meeting in Cairns, and the subsequent November Leaders' Summit in Brisbane. The Principles covered included the High-Level Principles (HLPs) 3, 5 & 7 in their entirety and selected sub-principles of HLPs 1 & 2.

The Task Force was charged with delivering a Report on Effective Implementation Approaches for the remaining High-Level Principles and sub-Principles to the G20 Leaders at the Summit in 2015. The report to G20 Leaders will be first submitted to the G20 Finance Ministers and Central Bank Governors at their September 2015 meeting. The purpose of the report is to identify both common effective approaches and innovative and/or emerging effective approaches from the information gathered from a survey of member jurisdictions.

This report presents a set of effective approaches to support the implementation of the High Level Principles 1, 2, 4, 6 and 8. The information provided herein reflects the responses of Task Force members and international organisations to relevant survey questions. For Task Force members, the survey questions covered each of the priority principles, while the questions directed at international organisations were primarily related to Principle 4 on financial regulation or to particular sub-principles, such as Principle 8.2 on financial education. The answers to the survey questions provided concrete examples of regulatory and supervisory approaches relevant for the principle in question. This information was complemented in some cases by factual information obtained through informal consultations with key stakeholders.

II. Effective Approaches

In this report, the term **underlying assumptions** refers to statements, ideas or concepts that further clarify or help to explain the High-Level Principle in question. In many cases they reflect common understandings about the attributes of properly functioning financial markets and institutions, derived from theory or empirical observation, as well as accepted views or interpretations about the behaviour of individuals and other relevant stakeholders. As such, the *underlying assumptions* provide context for the development of the financial policy interventions that form the basis for the effective approaches.

Three types of effective approaches are identified in the report. Measures identified as **common effective approaches** are regulatory, supervisory or industry-based measures and practices that have been widely endorsed or adopted in a number of jurisdictions and are considered to effectively implement key aspects of the Principle in question. They are taken in most cases from the members' survey or from existing measures agreed at international level, such as those developed by international standard setting bodies. It is important to note at the outset that the effective approaches are not meant as recommendations or practices that governments should adopt, but rather as examples of practices that have been adopted and are regarded as having been successful in achieving the intended objective.

Additional measures are also singled out in the report. They are regulatory, supervisory, or industry-based measures and practices that, while not in widespread use, in some cases being limited to one or only a few jurisdictions, are nonetheless deemed worthy by the Task Force members of further consideration or interest as alternative ways of effectively implementing particular aspects of a High-Level Principle. The label "**innovative effective approaches**" is used to identify policy approaches that undertake a different, alternative or novel approach to an issue, while the term "**emerging approaches**" refers to measures adopted or used specifically to address a new or emerging challenge. Both sets of approaches take into account different jurisdictional circumstances and are of relevance to different types of institutional investors. They, thus, may serve as useful examples for others engaged in an effort to remove impediments or give impetus to long-term investment financing by institutional investors.

PRINCIPLES 1.2 - 1.4, 1.6 - 1.9

Preconditions for long-term investments

1.2 Policies to promote long-term investment by institutional investors should be consistent with financial regulation objectives, ensuring the security, quality, liquidity, profitability and appropriate diversification of the portfolio as a whole.

1.3 Governments should support stable macroeconomic conditions that are conducive to longer-term investment, by maintaining credible monetary policy frameworks, responsible fiscal policies and sound financial sector regulatory environments.

1.4 Governments should ensure that capital markets and financial intermediaries are subject to an appropriate and predictable regulatory and supervisory framework within and across jurisdictions. Tax neutrality towards different forms and structures of financing should be promoted. Investment frameworks should as far as possible be made consistent across countries to facilitate the cross-border flow of long-term financing.

1.6 Governments should ensure that the legal and institutional preconditions are favourable for the development of institutional investors with a longer term investment horizon. Such investors should be adequately regulated and supervised, taking into account their specificities and the risks they face, and in line with relevant international standards.

1.7 Governments should develop and publish their long-term investment plans, consistent with a sound fiscal framework, after carrying out a suitable impact assessment and cost-benefit analysis of projects. These investment plans and their associated regulatory, judicial, and tax environment should be transparent, consistent and contribute to sustainable development and growth.

1.8 Where appropriate, governments should provide opportunities for private sector participation in long-term investment projects such as infrastructure and other relevant projects via, for instance, public procurement and public-private partnerships. Investment opportunities should enable the different parties to earn returns commensurate to the risks they take. Proper planning and effective management of such initiatives is recommended in order to ensure a regular, coherent pipeline of suitable projects. These initiatives should be supported by a transparent, sound and predictable regulatory framework and subject to effective monitoring and accountability. They also require capacity building in government at both the national and local level.

1.9 Government should consider issuing appropriate long-term instruments in line with their debt management and capital market development objectives. Such instruments underpin the development of long-dated private sector securities markets and can support asset-liability management by institutional investors and complement long-term investment portfolios.

Underlying assumptions

1. At a general level, various transactions and information infrastructure are needed to support financial activities and the entire financing process is influenced by the legal and regulatory system, supervision, tax laws, societal and industry norms and other environmental factors.

2. Relevant factors that affect long-term investment financing exist in 1) the macroeconomic environment, 2) the financial environment, 3) the entrepreneurial and broader business environment, and 4) at the level of individual investors and investment projects – the microeconomic environment.

3. A key challenge for policymakers is to put in place a policy mix that avoids macroeconomic imbalances and financial sector vulnerabilities that can thwart the growth process.

4. Investors are willing to commit their funds to investments only when they have some assurance that financial markets and institutions are safe and sound, and operate according to rules and procedures that are fair, transparent, and free from conflicts of interest and other agency problems.

5. Investment integrity requires proper and transparent choice, within the limits of the diversification paradigm and with adequate regulation, disclosure, accountability and effective financial education and training to facilitate proper risk assessment. Institutions will be reluctant to invest if risks and returns are not clearly understood and rewards are not adequate, a determination which requires transparent communication to allow institutions to properly assess and price risks.

6. Long-term investments can be particularly challenging, given the longer time horizons over which agency problems and related weaknesses can materialise, the greater uncertainty regarding investment returns, the particular illiquidity of long-term investments, lack of both transparency and the data needed to understand the risks of specific financing instruments and vehicles, and potential problems with investment conditions and market infrastructure.

7. Some institutional investors have the in-house asset management capability and the wherewithal, given the size of their balance sheets, to take on risks associated with infrastructure and other long-term investments, but others have insufficient capacity to manage long-term assets.

8. Investment in long-term assets is held back on the one hand by inability or unwillingness on the part of investors to undertake real investment and on the other by factors that reduce the returns to investors. These factors include restrictive product market regulations that reduce the ability of firms to undertake new activities or to enter new markets, especially across borders.

9. For infrastructure investment, specific problems relate to planning and limited capacity on the part of authorities to prepare and execute projects successfully. Other impediments to infrastructure investments may include the lack of robust rule of law and attractiveness of the regulatory environment. In addition, the absence of a successful track record of related projects can also be an impediment.

10. The ability of the governing body of an institutional investor to form an investment strategy that generates good long-term returns while operating within reasonable risk bounds is a critical element in serving the best interests of policy holders and beneficiaries.

11. Prudent investing on the part of institutional investors gives appropriate consideration to any factor which may materially affect the sustainable long-term performance of its assets, including factors of an environmental, social, and governance character.

Key themes:

Broad policy framework to support long-term investment activities

Effective approaches

Common

12. Governments take steps to ensure the broad policy framework is credible and consistent, which calls for a credible monetary policy framework, a responsible fiscal framework, a stable macroeconomic environment, a transparent regulatory environment and a consistent supervisory policy framework.

13. Governments take steps to ensure the broad policy framework is as compatible as possible with long-term investments, by promoting trust and confidence of investors and market participants and addressing the most common market failures.

14. Governments seek to establish adequate treatment for long-term investments in terms of prudential requirements and taxation, which are supportive of long-term growth, while at the same time adapting regulation and supervision to the peculiarities of longer term investments, which entail specific risks, such as early redemption risk or greater sensitivity to interest rate volatility due to longer duration.

15. Governments are facilitating LTI by taking steps to eliminate impediments in the tax system, including by striving to ensure that the tax treatment of a financing arrangement is consistent with the economic substance and commercial reality of the legal obligations set out in the arrangement.

16. Governments also facilitate LTI by seeking to remove impediments in the tax system that may result in biased impacts on particular economic activities.

Innovative/emerging

17. Governments may seek a better balance among the incentives in the financing mix of companies by reducing the tax deductibility of interest payments granted to corporates, or by introducing an allowance for corporate equity, which should help to support the use of equity financing.

Policies to promote long-term investment by institutional investors

Effective approaches

Common

18. Governments take steps to improve the planning of long-term investment projects and ensure an appropriate visibility of the long-term investment strategy over a long horizon.

19. Governments seek to ensure the involvement and cooperation of all relevant stakeholders in the promotion of long-term investment, notably through continued dialogue between government officials and professionals.

20. Governments take steps to facilitate strengthening of the capitalisation of firms, including by promoting listing by SMEs.

21. Governments seek to promote long-term investment by amending shareholder rights to encourage the active engagement of shareholders, including by amending stewardship codes and other corporate governance requirements such as corporate reporting requirements.

22. Governments offer long-term low-interest loans to help achieve long-term investment policy objectives, such as financial support for SMEs and infrastructure, while taking into account potential market distortions, crowding-out of private finance and the transfer of risks to the public sector.

23. Governments seek to promote long-term investment by offering tax incentives to boost long-term savings, such as tax exemptions for contributions to long-term savings schemes and/or exemptions on income earned on the assets invested during the contribution phase.

24. Governments take steps to eliminate impediments in the tax system that discourage private investment in infrastructure resulting from long lead times between incurring deductible expenditures and earning income from such investments.

25. Governments seek to expand the provision of financing for long-term investment by opening up domestic financial markets to international institutional and other investors.

Innovative/emerging

26. Governments may establish a fully dedicated "Investor Relations Officer" in an effort to improve and maintain a long-term relationship with institutional portfolio investors.

27. Governments take steps where appropriate to facilitate alternatives to bank credit financing in order to provide the economy with diversified and efficient sources of funding, while ensuring that the inherent risks will be appropriately taken into account by institutional investors in a prudent manner.

Legal and institutional framework for institutional investors with long-term investment horizons

Effective approaches

Common

28. Governments seek to support the development of institutional investors with longer term investment horizons by enforcing the predictability and visibility of the regulatory and fiscal framework over the long term.

29. Governments adopt measures to promote long-term savings, which should help support the development of institutional investors with business models focused on the longer term.

30. Governments seek to promote the development of institutional investors with longer term investment horizons through amendments to relevant stewardship or corporate governance codes to favour a long-term horizon.

Ensuring consistency of policies to support long-term investment with regulatory objectives

Effective approaches

Common

31. Governments take steps to ensure the development of viable venture capital markets, including by ensuring that venture capital funds hold a diversified portfolio of investments in start-up or expansion stage entities.

32. Governments take steps to ensure that policies for long-term investments are fully consistent with regulatory objectives governing institutional investors, including issues pertaining to portfolio security, asset quality, liquidity requirements, portfolio diversification, and solvency.

33. Governments ensure that proposed regulatory initiatives concerning institutional investors are subject to cost-benefit analysis, which helps to ensure consistency with broad regulatory objectives.

34. Governments take steps to remove unwarranted barriers to long-term investment by institutional investors, including factors that hinder the development of long-term instruments.

35. Governments take steps to ensure high-quality corporate governance practices and monitoring instruments that help to align board incentives with the long-term interests of shareholders and companies/projects.

36. Governments ensure that regulatory authorities take into account market-wide or systemic considerations in enforcing regulations pertaining to institutional investors.

37. Governments support the efforts of international standard setters to foster consistency and harmonisation of practices and financial regulatory frameworks across countries, including in relation to long-term financing.

Predictable regulatory and supervisory framework for capital markets and financial intermediaries

Effective approaches

Common

38. Governments take steps to design financial regulatory architecture to improve the efficiency and competitiveness of the financial system while ensuring its stability.

39. Governments ensure that financial regulation applies in a competitively neutral way across existing and newly emerging institutions.

40. Governments take steps to ensure transparency and accountability in the regulatory process, including through independence of regulatory authorities from direct government intervention.

41. Governments ensure that rules are clearly established and published to guarantee transparency.

Adapting the regulatory and supervisory treatment of institutional investors to their specificities

Effective approaches

Common

42. Governments adopt a principles-based approach to regulation and a risk-based approach to supervision to ensure regulated entities have sufficient latitude in how they manage investments, while duly taking into account the risks of the chosen investment strategies.

43. Governments adopt a risk-based regulatory framework for prudential purposes whereby capital requirements for supervised entities take into account the different risks the institutions face owing to the nature of their business.

44. Governments take steps to ensure that pension funds and other institutional investors are managed appropriately in line with the characteristics of each fund and asset and the needs of the asset owners or beneficiaries.

45. Governments take steps to ensure an appropriate matching of assets and liabilities in terms of maturity and timing of cash flows on the part of institutional investors with fiduciary obligations.

Conformity of domestic rules with relevant international standards

Effective approaches

Common

46. Governments take steps to ensure the adherence of domestic regulation to international standards.

47. Governments take steps to ensure sufficient levels of openness to contribute to the international competitiveness of the financial sector and enable service providers to exploit market opportunities.

48. Governments support efforts and undertakings establishing international rules that ensure that investors have free access to markets and ensure a level playing field.

Long-term investment plans

Effective approaches

Common

49. Governments develop specific long-term investment plans addressing economic and social infrastructure categories such as transport, energy, water, schools, hospitals, and information and communications technologies.

50. Governments ensure that expenditures planned for construction projects are included in the relevant budget and in the medium-term financial planning.

51. As part of long-term investment planning, Governments establish an infrastructure pipeline of planned public and private infrastructure projects.

52. Where national investment plans do not exist *per se*, federal governments seek to ensure proper coordination of investment plans at national, regional and local levels where relevant.

53. Governments at national and regional levels use websites and various other media to communicate information on infrastructure and other long-term investment projects.

Innovative/emerging

54. Governments may establish a national infrastructure agency to provide independent advice to government, investors and infrastructure owners on current and future economic infrastructure needs; mechanisms for financing infrastructure investments; and policy, pricing and regulation and their impacts on investment, and on the efficiency of the delivery, operation and use of national infrastructure networks.

55. Governments may issue at Ministerial level a Multi-Year Planning Document, which ensures consistency with the other legislative instruments of planning (such as general agreement, EU-funded programs, public-private partnerships, etc.) and also includes investment programs prepared at the sub-national level.

56. Governments may create a "National Infrastructure Planning portal", for facilitating examination of planning applications for nationally significant infrastructure projects, thereby helping to ensure that all planned infrastructure projects cohere at both national and sub-national levels.

57. Governments may develop an Infrastructure Priority List, consisting of high-quality projects of national significance, focusing for example on transport, energy, communications or water projects that will improve national productivity.

Regulatory framework governing PPPs and long-term investment projects

Effective approaches

Common

58. Governments ensure an appropriate regulatory framework is in place for major infrastructure sectors, which includes among other measures restrictions on misuse of market power, business acquisitions, access to infrastructure and other competition policy issues.

59. Governments take steps as necessary to amend the framework governing the permitting process to ensure the process is sufficiently transparent and predictable.

Consistency of long-term investment projects with a sound fiscal framework

Effective approaches

Common

60. Governments undertake a cost-benefit analysis of infrastructure projects in their jurisdiction.

61. To ensure consistency across jurisdictions and to provide clarity to industry, national governments establish guidelines that provide a comprehensive framework for strategic-level planning and analytical approaches to project appraisal, including an agreed cost-benefit analysis methodology.

Innovative/emerging

62. Governments may adhere to specified targets and limits on public liabilities and debt in order to ensure sustainable levels of specific long-term investment plans.

63. Governments may determine the public value of projects by assessing the costs and benefits to the public, valued as far as possible and expressed in monetary terms using accepted tools of welfare economics, including the identification and costing of risks as part of the social cost of a spending proposal.

Consistency of long-term investments with sustainable development and growth goals

Effective approaches

Common

64. Governments assess the costs and benefits of all major infrastructure projects, including with respect to wider impacts, such as their environmental effects.

65. Governments assess the fiscal consequences of long-term public investments as part of the regular political decision-making process.

Innovative/emerging

66. Governments may undertake a socio-economic evaluation of prospective projects which takes into consideration all the effects of a given project, assigning shadow prices to non-monetary effects such as environmental effects.

67. Governments may determine individual construction projects as part of separate legislative packages that will periodically be discussed in the legislative process.

68. Governments may establish an investment bank dedicated to accelerating the transition to a "green" economy, the main functions of which are to provide debt and equity finance solutions to innovative, environmentally friendly sectors where there is currently a lack of sufficient support from private markets.

Design, selection and management of project pipelines

Effective approaches

Common

69. Governments establish long-term infrastructure plans to outline their expected future infrastructure priorities.

70. Governments at national level seek to increase infrastructure investment and economic growth by engaging with regional and local level governments and private sector investors to encourage collaboration and expand, where appropriate, the market for relevant public-private partnerships.

71. Governments use various selection criteria for deciding which projects are suitable candidates to undertake, including projects which have strong expected economic productivity benefits, match identified long-term priorities or established strategic goals, have developed alternative delivery options and options

to encourage greater private sector involvement in the development and delivery of public infrastructure, satisfy the requirements of a socio-economic analysis, have a well-defined purpose and feasibility of implementation, and have reliability of revenue sources and are accompanied by appropriate environmental reviews.

72. Governments adopt different monitoring arrangements across projects, depending on the needs and risks of each project.

73. Governments take steps to ensure that proper project monitoring and controlling is conducted throughout the contract period of each PPP and terminates only at the end of the contract.

74. Governments establish negotiation teams as necessary for negotiating the terms of PPP contracts and any reinstatement of a contract's financial balance.

Innovative/emerging

75. Governments may establish a data commission to help maintain the national infrastructure pipeline, with inputs from public delivery departments and agencies, private infrastructure providers and regulators.

76. Governments at national and sub-national level may run training programmes on relevant topics related to infrastructure project management.

77. Governments may take steps to create a central cadre of qualified commercial specialists who will be deployed into infrastructure projects across government.

78. Governments may establish a "major projects leadership academy" to build the skills of senior project leaders across government, making it easier to carry out complex projects effectively and reduce the need for expensive professional advice from outside government, while strengthening skills within the civil service.

79. Governments may establish a national transportation investment centre to serve as a one-stop shop for regional and local governments, public and private developers, and investors seeking to use innovative financing strategies for transportation infrastructure projects.

Opportunities for private sector participation in long-term projects

Effective approaches

Common

80. Governments provide suitable opportunities for private sector participation in all aspects of infrastructure delivery, through call for public tender (public procurement) in which private corporations will provide all or part of conception, construction and other supplies and services, or through structured contracts such as PPP, including the government-pay model and the user-pay model (concession). Such opportunities may be offered both for national public investment projects and those from regional and local authorities, provided they make sound fiscal and financial sense.

81. Governments establish different opportunities for private sector participation depending on the specific project, regulatory environment, level of government, and project-selection criteria.

Value for money assessment

Effective approaches

Common

82. Governments assess “value for money” when determining the model for delivery.

83. Governments use specific methodologies for assessing value for money, which include creating an analytical tool for comparative assessment of service delivery options, such as a Public Sector Comparator to estimate whole-of-life project costing and revenue, and assessing whether projects have appropriate scale and duration, are innovative, have appropriate legal basis, better integration of design, relevant risk transfers and financial design, and construction and operational requirements.

84. Governments conduct economic feasibility analyses through a multi-stage process in which the most cost-efficient solutions are estimated, taking into account all costs and revenues.

85. Governments assess value for money on a case-by-case basis, with each project assessed separately.

Returns commensurate with risks

Effective approaches

Common

86. Governments conduct a full risk analysis for all PPPs, which involves comprehensive risk identification, assessment, allocation and mitigation strategies, and generates information which is used, among other things, in the construction of the public sector comparator tool, evaluation of value for money, determination of the payment mechanism, the development of risk management plans and the contractual terms and conditions.

87. Governments take steps to ensure that risks in a PPP contract are borne by the party best suited to manage them, which should entail a significant and effective transfer of risks to the private partner, while giving to the private partner an expectation of obtaining an adequate return on its investment taking into account the type and degree of risks involved and transferred, in order to sustain the private partner’s interest during the contract’s lifecycle.

Innovative/emerging

88. Governments may evaluate each candidate project’s financial plan, financial model, and feasibility of the pledged revenue before accepting an application for credit assistance.

Legal and regulatory framework governing PPPs and procurement arrangements

Effective approaches

Common

89. Governments conduct public procurement arrangements in accordance with a large body of regulation with detailed prescriptions and processes.

90. Governments that enter into PPP contracts do so on the basis of established laws governing contracts, with additional specific prescriptions and processes for PPP arrangements, including requirements governing the definition, conception, preparation, launch, tender, execution and negotiation of PPPs.

91. Governments establish guidelines to ensure an appropriate degree of consistency across similar types of projects and an appropriate degree of coordination across different levels of government.

92. Governments tailor specific documentation requirements to the project sector and its specificities.

Limits on disclosure of sensitive commercial/private information

Effective approaches

Common

93. Governments do not release commercially sensitive information unless there is a compelling public interest or legal reason for doing so and then only after consultation with the owner of the relevant information to determine its suitability for release.

94. Governments disclose information on the national pipeline of projects at the aggregate level (*e.g.* information on location, amounts of investment by sector, degree of progress, etc.)

Support for long-dated securities market and asset-liability management by institutional investors

Effective approaches

Common

95. Governments consider the investor base in decisions regarding the issuance of ultra-long term debt.

96. When developing issuance plans, governments hold careful dialogues with market participants.

Innovative/emerging

97. Governments take steps where appropriate to develop new market segments, aimed at responding to new market needs and at stimulating innovation among market participants (which can benefit private-sector issuers), provided each new operation is fully compliant with the mandate of the debt management office which is to issue at the lowest possible cost while minimising risk.

98. Governments seek where appropriate to encourage corporate issuance of new types of bonds by issuing its own sovereign bonds denominated in foreign currencies or via new structures such as Sukuk.

99. Governments promote where appropriate the establishment of an alternative bond market aimed at providing mid-cap firms with a market in which to issue bonds and short-term securities.

PRINCIPLE 2: DEVELOPMENT OF INSTITUTIONAL INVESTORS AND LONG-TERM SAVINGS

2.1 Governments should promote policies that encourage and support the development of long term savings and of institutional investors and their role in long-term investment financing and financial market stability in a sound and sustainable manner, complementing and building on the expertise and activities of other financial intermediaries, such as banks.

2.2 Governments should promote the development of long-term savings through savings mobilisation policies. Such policies may consider the use of default mechanisms such as automatic enrolment as well as, where appropriate, mandatory arrangements. When relevant and subject to the macroeconomic situation, appropriate financial incentives to long-term saving should be provided and tax impediments removed. Governments should also promote the development of long-term savings through pooled investment vehicles and collectively organised long-term savings and retirement plans, increased awareness amongst the population, financial inclusion policies, and the promotion of financial literacy.

2.3 Governments should promote measures to enhance the efficiency and reduce the costs of long-term saving schemes and institutional investors. Such measures, as related to long-term institutional investors, could include enhancing transparency on fees, fostering competition among financial institutions, exploiting economies of scale, and reducing incentives for excessive portfolio turnover.

Underlying assumptions

100. Savings and investments by individuals are important both for personal financial well-being and for economic growth. Many governments seek to encourage their citizens to save more, or to save more appropriately, by opting for formal institutions to encourage saving rather than relying on informal savings arrangements and by promoting diversification and other sound investment principles.

101. There are various ways in which individuals save ranging from holding surplus income as cash, through simple informal saving mechanisms such as savings and loan clubs, to complex financial instruments, or non-financial saving such as property or livestock. Some of these approaches are more suited to short-term savings and income smoothing, whilst others provide long-term savings to draw on in future periods.

102. There may be considerable barriers to saving for some segments of the population, which may include limited access to financial markets by some groups, excessive complexity of financial products, and information asymmetries. Knowledge and understanding of saving and investment concepts may also be low among some segments of the general population in many countries. In addition, there can be behavioural and cultural factors which may limit individuals' propensity to save.

103. As a consequence, policy makers have developed several strategies to influence whether and how individuals save. Policy responses typically involve a combination of prudential regulation and consumer protection legislation, financial and tax incentives, financial education and awareness initiatives, as well as behavioural techniques to lead people into sound saving decisions.

Key themes:

Savings mobilisation policies: financial incentives, tax incentives

Effective approaches

Common

104. Governments promote the introduction of new financial products specifically designed to meet the long-term financing needs of the economy, including as appropriate by creating tax or other risk-taking incentives for households that are able to manage the additional risk.

105. Governments establish requirements for default enrolment options in private pension plans, which may also be required to be consistent with a member's age and income profile, objectives, risk preference and time horizon in the retirement system.

106. Governments take steps to promote long-term savings, including, as appropriate, by adopting measures aimed at guaranteeing the rights of insured parties in the compulsory pension system.

107. Governments support the provision of medium- to long-term financing, including as appropriate by granting tax credits, provided the funds are invested with the objective to be held with a "long-term" perspective.

108. Governments take steps to promote the financing of SMEs, including by allowing for the constitution of entities focused on financing SMEs through equity as well as debt.

Institutional investors as sources of stability

Effective approaches

Common

109. Governments establish requirements for institutional investors with fiduciary responsibilities to implement a sound investment governance framework and to manage investments in a manner consistent with the best interests of beneficiaries.

110. Governments take steps to ensure that applicable regulation does not hamper the stabilising role of institutional investors, given the nature of their business model and the maturity of their liabilities.

111. Governments take steps to develop internal credit risk assessment capabilities on the part of institutional investors, in order to minimise reliance on external credit ratings.

112. Governments take steps to ensure the provision of long-term capital through encouraging effective shareholder engagement and stewardship investing.

113. Governments support the provision of long-term financing by adopting reforms to improve the quality of financial reporting through the investment chain to meet the needs of long-term investors.

114. Governments take steps to encourage long-term investing through reforms aimed at improving the transparency of costs and charges in the investment chain, better aligning incentives in the remuneration of company directors and asset managers, improving governance standards and addressing conflicts of interest.

Role of institutional investors and banking activities

Effective approaches

Common

115. Governments actively monitor the risk assessment capabilities of institutional investors, including with respect to key elements of partnerships with banks when they engage in long-term investment financing.

116. Governments assess whether there is a sound and sustainable balance between bank lending and capital markets-based financing of long-term investments in order to mitigate pro-cyclicality.

Efficiency of long-term savings schemes and institutional investors

Effective approaches

Common

117. Governments take steps to reduce the costs of long-term savings schemes by promoting standardisation and competition between a large number of undertakings from various sectors and sizes, and adequate transparency on product prices and fees.

118. Governments adopt measures to streamline regulation governing the collective investment management sector, clarifying the regulatory framework and avoiding overlaps, in order to reduce the costs related to the compliance by the operators to the existing regulatory obligations.

119. Governments establish transparency provisions for pension funds to enhance the efficiency and reduce the cost of long-term saving schemes and institutional investors.

Innovative/emerging

120. Governments seek where appropriate to reduce costs of savings schemes by removing barriers to non-resident investment, including by adjusting the tax requirements of mutual funds' gains to occur only at the investor's level, taking into account the individual position (of gain or loss) in the mutual fund and exempting non-resident investors.

121. Government seek where appropriate to promote long-term savings by reducing the tax rate on capital market instruments on the condition that they are retained for longer periods.

122. Governments take steps where appropriate to allow pension funds to improve their efficiency by relaxing where feasible some of the quantitative limits on investment in financial assets and allowing for an adjustment of funds' organizational structures where appropriate, while ensuring that they are capable of fulfilling their responsibilities towards their beneficiaries.

Rules pertaining to the provision of long-term savings products

Effective approaches

Common

123. Governments adopt measures requiring entities selling long-term products to ensure that the products in question are fit to the investors' risk profile and investment horizons.

124. Governments limit the marketing and sale of certain high-risk investment products only to institutional or qualified investors able to manage the additional risks.

Innovative/emerging

125. Governments adopt flexible regulations where appropriate to permit a range of institutions from various sectors to offer long-term savings products to investors, but in some cases, may reserve the provision of financial services and activities to specific entities.

Regulation of asset managers' fees

Effective approaches

Common

126. Governments require standardised disclosure of information on fees (structure and levels) as a key component of investor protection.

127. Governments take steps to ensure that rules governing collective investment schemes identify the modalities by which the fees to be paid to the asset management company are calculated and specify the reference parameters, which are required to be easily verifiable.

PRINCIPLE 4: FINANCIAL REGULATION, VALUATION AND TAX TREATMENT

4.1 The financial regulatory framework - including valuation rules, any risk-based capital requirements and other prudential measures - for institutional investors should reflect the particular risk characteristics of long-term assets appropriately. The framework should also consider the investment horizon and typical holding period of these investors, while promoting their soundness and solvency as well as broader financial stability and consumer protection. Excessive or mechanistic reliance on external investment or creditworthiness analysis (such as credit rating agency ratings) should be avoided.

4.2 Solvency, accounting and funding requirements for institutional investors should avoid creating incentives for procyclical investment strategies. Any risk-based solvency rules should reflect the suitability of long-term assets for asset-liability management purposes, taking into account the level of predictability of cash flows.

4.3 The transparency, consistency, relevance and reliability of valuation methods for long-term assets should be promoted, as well as the development of appropriate benchmarks for such assets.

4.4 The tax environment and policies should remain stable and avoid creating impediments to long-term investment by institutional investors, including cross-border investment. They should also be subject to regular monitoring to prevent abuse, in particular in terms of international competition and regulatory arbitrage.

4.5 Governments should collaborate to promote greater consistency and strengthen the regulatory and supervisory frameworks for institutional investors, which may facilitate open, free and orderly capital flows and long-term cross-border investment by institutional investors.

4.6 Monitoring the impact of the regulatory and supervisory framework should include consideration for the effect of this framework on long-term investment.

Underlying assumptions[1]

128. All institutional investors are subject to a defined institutional and legal framework, which tends to vary across different types of institutional investors. The differences in treatment generally reflect differences in the types of assets they manage, the characteristics of their liabilities, and in some cases the factors affecting their solvency.

129. Institutional investors are affected by measures adopted for macro-prudential purposes. Institutional investors may be directly affected by specific policy reforms addressing systemic risk. Institutional investors more generally may be affected indirectly via their roles as counterparties in financial transactions with directly-affected market participants.

[1] Some of the underlying assumptions for this principle are taken from the core principles, guidelines, or recommendations of international standard setters.

130. Prudential supervision typically plays a key role in the governance of institutional investors in cases where the sponsor of the institutional investment product has a contractual obligation to produce a fixed payment or a specified flow of payments for the beneficiary, which raises a potential risk of solvency problems.

131. In the case of private pensions, an appropriate regulatory framework takes into account the complexity of the schemes in order to ensure the protection of pension plan members and beneficiaries, the soundness of pension plans and funds and the stability of the economy as a whole.

132. For insurance undertakings, the fundamental objective of regulation is to guarantee, partially or in full, that payments made pursuant to insurance contracts can be appropriately paid out to policyholders by the insurance undertaking in the event that a risk event occurs. This will ensure that policyholders have sufficient financial security when risks are realised, and promote confidence in the insurance system as a financial safety net.

133. In contrast to these types of institutional investors, collective investment schemes and mutual funds have different operating models. Solvency concerns are less relevant for these types of institutional investor products whereby the institution merely agrees to invest the funds on behalf of the beneficiary and does not, in principle, have a commitment to pay the investor a specific return. Investment funds/CIS are generally governed by the stated investment objectives and limits as set out in the fund contract or prospectus. There are regulatory requirements for certain types of investment funds, but these generally do not emphasise risk-based capital requirements. Instead, more emphasis is typically placed on requirements for disclosure and transparency, and enforcement of rules to ensure that the entity is operated in accordance with the regulatory framework.

134. Some categories of institutional investors are accorded a special tax status, which is often offered in exchange for the investor's or beneficiary's agreement to defer use of the savings for a certain period of time and then to use them only for a specified purpose, such as saving for retirement.

135. There are many common elements in the financial regulatory framework governing institutional investors. They include in addition to the factors just discussed, strict up-front licensing requirements, accompanied in some cases by specific solvency and technical requirements, accounting requirements and investment regulations; required standards of behaviour with specific responsibilities assigned to certain designated third parties (*e.g.* actuaries, trustees, depositories, etc.); rules mandating internal compliance functions; and general consumer protection and market conduct regulations.

136. Legal and regulatory provisions need to be assessed over time in terms of their overall effectiveness and efficiency in promoting the development of sound, effective and well-run institutional investors.

Key themes:

The financial regulatory framework for institutional investors

Effective approaches

Common

137. Governments take steps where appropriate to ensure that regulatory measures governing institutional investors take into account the need for fostering long-term financing and facilitating the flow of adequate resources to support the economy, without compromising the traditional objectives of stability of the financial system and investor protection.

138. Governments establish a legislative and regulatory framework for institutional investors that includes specific rules adapted to the differing needs of retail versus professional investors.

139. Governments implement measures to ensure that governing bodies of institutional investors, and any external contractors, act in the best interests of the members, respectively their clients and policyholders / beneficiaries.

140. Governments seek to ensure a level playing field and to foster cross-border consistency in the regulatory and supervisory frameworks governing institutional investors through the development and consequent national implementation of international standards.

Solvency, accounting and funding requirements

Effective approaches

Common

141. Governments take steps to ensure that the regulatory framework for institutional investors with fiduciary responsibilities incorporates the appropriate funding/solvency requirements, accounting requirements and investment regulations.

Transparency, consistency and reliability of valuation methods

Effective approaches

Common

142. Governments seek to ensure that the valuation of assets held by institutional investors follows a valuation approach consistent with relevant international accounting standards (including fair value and the possibility to value held-to-maturity investments at amortized cost).

Tax environment and policies

Effective approaches

Common

143. Governments monitor the impact of tax policy on long-term investment on a regular and consistent basis, considering the objectives and priorities of the corresponding investment instruments and measures while taking into account level-playing field considerations.

PRINCIPLE 6: INVESTMENT RESTRICTIONS

6.1 Where applied, restrictions on long-term investment by institutional investors should be consistent with diversification and financial regulation objectives. They should be reviewed regularly and, where appropriate, they should be eased subject to necessary safeguards being in place, such as strong governance and risk management mechanisms, effective supervision, and appropriate diversification.

6.2 Governments should avoid introducing or maintaining unnecessarily barriers to international investment – inward and outward - by institutional investors, especially when targeted to long-term investment. They should cooperate to remove, whenever possible, any related international impediments.

Underlying Assumptions

144. All institutional investors gather assets and deploy them to achieve their stated investment objective. Among the main objectives of an institutional investor are to (1) earn an adequate return on funds invested and where applicable (2) to maintain a comfortable surplus of assets beyond liabilities and sufficient liquidity to meet required withdrawals or payments.

145. The ability of the governing body of an institutional investor to form an investment strategy that generates good long-term returns while operating within reasonable risk bounds is a critical element in serving its members' best interests.

146. Prudent investing on the part of institutional investors gives appropriate consideration to any factor which may materially affect the sustainable long-term performance of its assets, including factors of an environmental, social, and governance character.

147. The regulatory and supervisory treatment of institutional investors needs to take into account the specificities of different types of institutional investors, including the particular types of risks they face and the nature of the promises inherent in their obligations to members.

148. The core objective of investment regulations of insurers and pension funds is to ensure that the "promise" given to policyholders or beneficiaries can be kept through prudent investment activities, and avoidance of investments that may be excessively risky.

149. Investment regulations are an integral part of the financial regulatory framework that directs insurers and pension funds to manage their risks in a manner that will ensure that they have sufficient capital/funds for their operations and to meet any expected payment/payout, as well as maintain a sufficient margin over costs to enable insurers and pension funds to make necessary improvements or enhancements to their operations.

150. As a general rule, fiduciary responsibilities are subject to more stringent requirements than pro rata collective investments. For instance, all jurisdictions apply some form of investment

requirements/regulations on the portfolio investments of insurers and/or pension funds to limit the risk-taking of these entities as well as for other prudential purposes.

151. Investment restrictions can be in the form of quantitative limits or more qualitative standards. There are also prudentially-minded requirements such as asset-liability management requirements, currency and maturity matching, self-investment limitations, and management of concentration risk, leverage, and conflicts of interest.

152. A distinction needs to be drawn between "direct" regulatory constraints on investment activities and regulations that are not intended to restrict asset allocations *per se* but which nonetheless lead *de facto* to a portfolio composition that is different from the one that otherwise would likely prevail.

153. Investment restrictions need to be reviewed periodically to ensure they remain the most effective and efficient means of achieving their intended purpose.

Key themes:

Investment restrictions on LTI by institutional investors

Effective approaches

Common

154. Governments take steps to ensure that governing bodies of institutional investors make investment decisions balancing the potential risks and returns, while being mindful of their duty to act in the best interests of their clients, including policyholders and beneficiaries.

155. Governments apply the prudent-person principle to investments by institutional investors, which allows institutions to undertake investments in a wide range of assets, insofar as they demonstrate that they can manage the attendant risks, including through professional experience, integrity and independence, to be fulfilled by persons who perform administrative, managerial or control functions within such institutions, and assuming that they hold sufficient own funds to meet regulatory capital requirements.

156. Governments take steps to ensure adequate investor protection for investments in investment funds marketed to retail investors, including by establishing limits such as concentration limits, leverage limits, or restrictions on holdings of illiquid securities.

157. Governments take steps to simplify and relax investment restrictions where feasible and to monitor binding restrictions of a quantitative nature over time to assess their impact and necessity, while making sure that institutional investors will have the capacity to understand and manage the risks they take on after the relaxation.

Innovative/emerging

158. Governments where appropriate establish principles under the "comply or explain" approach that are considered to be helpful for institutional investors who behave as responsible institutional investors in fulfilling stewardship responsibilities (*i.e.* to enhance the medium- to long-term investment return for their clients and beneficiaries by improving and fostering the investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue).

Barriers to international investment

Effective approaches

Common

159. Governments take steps to remove barriers to international investment by institutional investors, although there may be applicable rules and regulations in certain situations.

160. Governments subject investment rules governing foreign investment to regular review, allowing existing limits to be exceeded in justified cases.

Innovative/emerging

161. Depending on national circumstances, governments screen proposals on a case-by-case basis, where appropriate.

PRINCIPLE 8: FINANCIAL EDUCATION, AWARENESS AND CONSUMER PROTECTION

8.1 An appropriate financial inclusion and consumer protection framework combined with financial regulation should promote long-term investment by institutional investors serving the retail market and to protect stakeholders, policyholders and beneficiaries of institutional investors in relation to such long term investment.

8.2 Tailored financial education and awareness strategies should be put in place to inform potential and actual users of institutional investment vehicles about the benefits of long-term saving and investing, as well as any potential risks and costs.

8.3 Default investment mechanisms for those members who do not exercise choice could be put in place in retirement savings systems. Those mechanisms should be consistent with the members' objectives, risk preferences and time horizons.

Underlying assumptions[2]

162. Financial consumer protection should be an integral part of the legal, regulatory and supervisory framework, and reflects the diversity of national circumstances and global market and regulatory developments within the financial sector.

163. Regulation should reflect and be proportionate to the characteristics, type, and variety of the financial products and consumers, their rights and responsibilities and be responsive to new products, designs, technologies and delivery mechanisms.[3] Strong and effective legal and judicial or supervisory mechanisms should exist to protect consumers from and sanction against financial frauds, abuses and errors.

164. Financial services providers and authorised agents[4] should be appropriately regulated and/or supervised, with account taken of relevant service and sector specific approaches.

165. Relevant non-governmental stakeholders – including industry and consumer organisations, professional bodies and research communities – should be consulted when policies related to financial consumer protection and education are developed. Access of relevant stakeholders and in particular consumer organisations to such process should be facilitated and enhanced.

166. Financial education and awareness should be promoted by all relevant stakeholders and clear information on consumer protection, rights and responsibilities should be easily accessible by consumers. Appropriate mechanisms should be developed to help existing and future consumers develop the

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[2] Information for this section is taken from Principle 1 (Legal, Regulatory and Supervisory Framework) and Principle 5 (Financial Education and Awareness) of the *G20 High-level Principles on Financial Consumer Protection,* developed by the G20/OECD Task Force on Financial Consumer Protection.

[3] Where relevant, appropriate mechanisms should be developed to address new delivery channels for financial services, including through mobile, electronic and branchless distribution of financial services, while preserving their potential benefits for consumers.

[4] Authorised agents are understood to mean third parties acting for the financial services provider or in an independent capacity. They include any agents (tied and independent) brokers, advisors and intermediaries, etc.

knowledge, skills and confidence to appropriately understand risks, including financial risks and opportunities, make informed choices, know where to go for assistance, and take effective action to improve their own financial well-being.

167. The provision of broad based financial education and information to deepen consumer financial knowledge and capability should be promoted, especially for vulnerable groups.

168. Taking into account national circumstances, financial education and awareness should be encouraged as part of a wider financial consumer protection and education strategy, be delivered through diverse and appropriate channels, and should begin at an early age and be accessible for all life stages. Specific programmes and approaches related to financial education should be targeted to vulnerable groups of financial consumers.

169. All relevant stakeholders should be encouraged to implement the international principles and guidelines on financial education developed by the International Network on Financial Education (INFE). Further national and international comparable information on financial education and awareness should be compiled by national institutions and relevant international organisations in order to assess and enhance the effectiveness of approaches to financial education.

Key themes:

Framework for financial inclusion and financial consumer protection

Effective approaches

Common

170. Governments ensure that regulated entities follow the rules designed to protect their customers, rules which result from legal and regulatory provisions, and encourage them to follow codes of conduct approved by professional associations, as well as best practices recommended or observed in their respective field.

171. Governments incorporate provisions on financial consumer protection, financial and financial education in the legal, regulatory and supervisory framework that governs institutional investors.

172. Governments adopt and enforce measures that apply to insurers and personal pension providers when dealing with retail clients to provide protection for investors in institutional investment vehicles.

173. Governments monitor developments in retail finance to identify risks arising from the activities performed by different market participants and regulated entities, as well as from the products offered.

Innovative/emerging

174. Governments adopt where appropriate an overarching Financial Inclusion Strategy combining Strategy and Action Plans that span all financial services and products and all segments of the population, while maintaining a focus on school aged-children, university students and women, and other specific disadvantaged segments of the general population.

175. Governments may incorporate, as appropriate, provisions on access to finance and banking in their monetary and financial code, consumer code and codes pertaining to provision of payment and investment services.

Financial education and awareness strategies[5]

Key theme: Financial education for long-term saving and investing (Sub-principle 8.2)

Underlying assumption

176. Governments develop national strategies for financial education, intended as a nationally co-ordinated approach to financial education involving relevant stakeholders in the country and setting priorities, roadmaps and guidelines for their implementation.

177. Financial education initiatives developed by governments include the provision of financial education in schools, as a way to improve financial literacy from an early age and start building financial competences for long-term saving and investing that will be especially needed in adulthood.

Common

178. Governments deliver financial awareness and education on a variety of financial education topics including on long-term savings and investments, life insurance and private pensions. Financial education for long-term saving and investing covers benefits, risks and costs for consumers, alerts consumers to possible frauds and makes them aware of ways to seek help and redress.

179. Governments provide information and instruction on long-term savings and investments through various channels including seminars and workshops, websites, print media, awareness campaigns and other events, or combinations of those. Governments also provide financial education about long-term savings and investments through online tools such as calculators and comparison tables/tools, as a way to facilitate understanding of benefits, costs and risk and to support long-term planning.

180. Governments can deliver financial education for long-term savings and investments directly, can partner with private and not-for-profit stakeholders, or can encourage, coordinate and monitor the provision of such information by private and not-for-profit stakeholders (following the OECD/INFE 2014 Guidelines on Private and Non-For Profit Stakeholders in Financial Education).

181. In their efforts to deliver financial education for long-term savings and investments, governments target broad audiences, beyond current and would-be users of long-term saving and investment products. In addition, they typically address more specifically target audiences at different life stages and who may have different needs concerning long-term saving and investing, such as young people or seniors.

Innovative / emerging

182. Governments ensure where appropriate that pension information is available to citizens in a coordinated and standardised way across public and private pensions, and across various private pension providers.

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[5] Some of the effective approaches identified for this theme reflect work conducted on this topic by the International Network for Financial Education (INFE). The INFE was established in 2008 and currently comprises 114 economies and upwards from 240 public institutions. It is aimed at developing methodologies to collect evidence on financial education and literacy, share relevant experience and good practices, identify and elaborate research with a view to drawing policy instruments aimed at supporting policymakers in improving financial education delivery and efficiency and ultimately financial wellbeing.