PFR8 -SUITABILITY OF RETIREMENT FUND INVESTMENTS
2024

NBFIRA/RS/RF/RUL008

Non-Bank Financial Institutions Regulatory Authority

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1. PURPOSE

1.1 This document sets out the requirements for the Certification of the Suitability of Retirement Fund Investments. The aim is to help ensure consistency and completeness of processes followed by the actuary in assessing the suitability of the investments. These Rules are issued in terms of Section 64 of the Retirement Funds Act, 2022.

1.2 The inclusion of an Actuary's certification of the Suitability of Retirement Fund Investments forms part of the documents required at licensing and statutory returns to the NBFIRA and is mandatory for all Retirement Funds, in line with the investment strategy set out in PFR 2. PFR 8 is submitted at licensing and whenever the Investment Strategy changes.

2. SCOPE

2.1 The assessment of the suitability of investments is adapted from professional guidance prepared by the Actuarial Society of South Africa ("ASSA"). PFR8 applies to the assessment of the suitability of investments in respect of all Retirement Funds operating in Botswana, regardless of the actual professional affiliation of the Actuary.

2.2 These Rules apply to all Retirement Funds licensed in terms of the Act.

2.3 These Rules are not exhaustive and should be read in conjunction with the Act, the NBFIRA Act, other relevant Acts, Regulations and other Rules.

2.4 These considerations are aimed at providing guidance on assessment of the suitability of the investments and the investment strategy.

3. ASSOCIATED DOCUMENTS

Document	Reference
Retirement Funds Act and its Regulations	
PFR1 - Funding Valuation Rules;	
PFR 2 - Pension Fund Investment Rules	
PFR3 - annual Retirement Fund Return	

Audited Annual Financial Statements	
PFR9 - Risk Questionnaire	
PFR6 - Actuary's Report	
PFR7 - Application for Exemption from Actuarial Valuation	
Fund Rules	
Other Rules	

4. DEFINITIONS

Terms	Definition
Act	means the Retirement Funds Act, 2022 or as amended from time to time.
Defined Benefit Fund	means a type of retirement plan in which the employer promises to provide employees with a specified, predetermined benefit at retirement. The benefit is usually based on factors such as the employee's salary, years of service, and a predetermined formula specified in the plan's documentation. In a defined benefit plan, the employer bears the investment risk and is responsible for ensuring that there are sufficient funds to meet the promised benefits when employees retire.
Defined Contribution Fund	As defined in the Act and in amplification means a Retirement Fund in which member and employer contributions are fixed, either as a percentage of pensionable earnings or as a Pula amount, and a member's retirement benefit has a value equal to these contributions, net of expenses, accumulated in an individual account with investment return and any surpluses or strains as determined by the person managing the business of the Retirement Fund. If the Fund Rules define the fixed contributions to include the premiums paid for any insurance of death and disability risks, or the Retirement Fund self-insures any part of the death and disability risks

	and the Fund Rules define the fixed contributions to include the cost of such self-insurance, the premiums paid for any insurance of death and disability risks and the costs of self-insurance of such risks must be deducted as expenses when determining the contributions that will be credited to the member's individual account.
Investment Advisor	as defined in the Act.
NBFIRA Act	Means the NBFIRA Act, 2023 or as amended from time to time.
The Regulatory Authority	means the Non-Bank Financial Institutions Regulatory Authority established under the Non-bank Financial Institutions Regulatory Act.

5. ABBREVIATIONS

Abbreviation	Full Phrase
PFR2	Prudential Rule on Pension Fund Investment Rules.
NBFIRA	Non - Bank Financial Institutions Regulatory Authority.

6. RESPONSIBILITY

All licensed Retirement Funds.

7. PFR 8 - SUITABILITY OF RETIREMENT FUND INVESTMENTS

7.1 Certification Considerations

7.1.1 General Considerations

(a) The actuary should ensure that he or she has an adequate understanding of the Retirement Fund's investment strategy before certifying the appropriateness of the Retirement Fund's asset structure. All Retirement Funds are required to develop an investment strategy according to PFR2.

(b) There is no requirement for a Retirement Fund to engage an actuary to assist with the development of the investment strategy. The Retirement Fund may engage an investment advisor or may develop its own investment strategy if there is sufficient investment skill among the Board of Trustees.

(c) The actuary should advise the trustees of the issues that he or she will consider when he or she comes to review the asset structure for certification purposes.

(d) In most cases there are a range of strategies that could be considered appropriate, rather than a single investment strategy. In certifying the appropriateness of the structure of assets the actuary must ensure that the asset structure falls within the range of appropriate investments.

7.1.2 Assets Structure Relative to Liabilities

(a) The key considerations when considering the appropriateness of any asset structure relative to any set of liabilities are:

i. The investment objectives;

ii. The long-term returns expected to be earned from the assets relative to the returns required to finance the liabilities;

iii. The potential mismatch between the assets and the liabilities in terms of the incidence of cashflows, or liquidity requirements;

iv. The potential uncertainty in terms of the returns earned by the assets over both the shorter term and the term of the Retirement Fund's liabilities;

v. The risk of capital loss arising from market fluctuations before maturity, including potential early termination penalties in respect of structured products and smoothed bonus policies;

vi. The risk that short term investments may not be able to be reinvested at the same rate as the original investment, to deliver the required return over the full term of liabilities; and

vii. The asset allocation limitations prescribed in PFR 2.

7.1.3 Defined Benefit Fund

(a) In addition to the considerations set out in "Assets Structure Relative to Liabilities" above, in order to certify the appropriateness of the structure of the assets relative to the liabilities of a defined benefit fund or of defined benefit liabilities within a hybrid fund, the actuary should consider the following specific issues:

i. The term of the Retirement Fund's liabilities in comparison to that of its assets;

ii. The nature of the Retirement Fund's liabilities (whether contractual or discretionary) compared to the Retirement Fund's assets;

iii. The Retirement Fund's pension increase policy, where applicable;

iv. The funding position of the Retirement Fund;

v. The extent to which the Retirement Fund's assets are invested in a manner such that the net returns expected to be earned (after pension or provident fund tax and fees) are likely to be adequate to meet the Retirement Fund's liabilities in terms of the Retirement Fund's actuarial funding basis;

vi. The extent of any contingency reserves that may be drawn on to Retirement Fund liabilities; and

vii. In a "balance of cost" situation, where such information is available, the willingness and ability of the employer to pay additional contributions to meet any shortfall that emerges.

7.1.4 Defined Contribution Fund

(a) A defined contribution fund will broadly fall into one of two categories, namely those that operatea single investment channel in respect of the Retirement Fund's total liabilities and those that operate multiple investment channels. In the latter case the different investment channels might be allocated to different groups of members on the basis of some factor such as age, or term to retirement, or be made available to members on a choice basis, or both.

(b) Where a single investment channel is operated in respect of the Retirement Fund's total membership, the actuary should consider the following factors which will influence the appropriateness of a particular strategy:

i. The objectives of the Retirement Fund as stated by Board of Trustees;

ii. The policy regarding investment smoothing and the existence and size of any investment reserves;

iii. Consider the average age of the members of the Retirement Fund;

iv. The potential for negative returns to significantly erode the benefits of members close to retirement;

v. The likelihood of significant disinvestment to meet future benefit payments; and

vi. Communication provided to members which might influence members' expectations.

(c) Where multiple investment channels are provided it would be usual for at least one investment channel to be growth focused and at least one to be capital preservation focused. In such a Retirement Fund, in order to provide the required certification, the actuary should be satisfied that the underlying asset structures are consistent with the stated objectives of each channel.

7.2 Non-Compliance With These Rules

(a) Non-compliance with these Rules will result in ***the Regulatory Authority*** imposing civil penalties on the non-complying persons as per Section 107 of the NBFIRA Act, 2023.

8. **RECORDS**

Reference Number	Record (Description of records)	Location / Holder	Retention Period	Justification
	Investment Policy	Retirement Fund File/Procurement & Administration	Preserve Permanently	Monitoring
	Certification of Suitability of Retirement Fund Investments	Retirement Fund File/Procurement & Administration	Preserve Permanently	Monitoring
	Onsite Report/Offsite Analysis	Retirement Fund File/Procurement & Administration	Preserve Permanently	Monitoring