

# ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

## *Session 5*

### The Role of Regulators

#### **Professor Kevin Davis**

Director, Melbourne Centre for Financial Studies

#### **SUMMARY PAPER**

##### ***What is Different about Pension Fund Regulation?***

- Participation is mandated by Government
- Industry receives special tax benefits
- Public policy objective of ensuring appropriate life-cycle wealth accumulation and (in retirement) decumulation
- No “default” risk (except for defined benefit schemes), but operational and performance risk
- Potential agency problems – delegation of management by individuals to pension fund management company (or, arguably, by government to individuals in case of self managed pension funds)
- Potentially large component of individual wealth

##### ***What are the Problems justifying Regulation?***

- Governance of collective schemes – effective participation by individuals via either “exit” or “voice”
- Appropriate portfolio choice – risk taking, “consumption” rather than wealth generation
- Types of risks
  - Agency – different objectives of fund managers
  - Portfolio – risk positions
  - Systemic – exposure of DB plan solvency to economy
- Cost efficiency – operational costs and fees
- Operational risk – including delegation of duties

##### ***How are these problems reflected in types of regulation?***

- Licensing
- Governance Rules
- Operational requirements; Asset Segregation Rules, Independent Custodian, External Audit/Actuary

- Disclosure Requirements
- Investment/Portfolio Regulation
- Guarantees
- Minimum Capital and Reserves
- Regulations on Costs and Fees
- Product range and choice

***Regulatory Agencies and Self Regulation – Some Questions***

- What is the appropriate division of responsibilities among Prudential Regulators, Securities Regulators, Consumer Protection Agencies etc.?
- What role can Industry Associations play in reducing the need for explicit regulation and improving performance?
- How do we determine when the type and style of regulation is appropriate and assess the cost-benefit effectiveness of regulation?
- Who should fund regulatory agencies – government budgets/taxpayers or “user-pay”?