

Actuaries must tighten regulatory processes

Charlie Kirby

Pension actuaries must consider stricter independence requirements and seek professional quality assurance requirements, according to the Professional Oversight Board.

As part of the replacement for its compliance review standard in pensions (GN48), it recommended that the actuarial profession considers restrictions on scheme actuaries providing advice to separate parties, such as trustees and sponsors, on closely related issues, unless there is an independent review of their work.

The board, part of the Financial Reporting Council, published the report on May 19.

The report also noted the steps the profession has taken to improve its regulatory capability, including the appointment of Sir Philip Mawer as chairman of its Professional Regulation Executive Committee.

Dame Barbara Mills, the board's chair, said that while progress had been slow in some areas, Mawer's decision to call for a more outcome-based



Mills: the recommendations address increased pressure on actuaries

approach to regulating its members, and monitoring the quality of its regulatory processes for achieving those outcomes, was welcome.

She concluded: "Our recommendations address the increased pressures on actuaries to make or accept inappropriately aggressive judgments and take or support inappropriate decisions, and the need for users to be able to rely on them to have proper quality controls over their work."

Investor confidence rises

The Global Investor Confidence Index rose by 3.1 points in May from the revised April reading of 103.2, according to State Street Global Investors.

Confidence was up particularly strongly in North America, where the benchmark rose from 95.3 to 104.9. European investors also saw confidence increases, climbing 7.5 points from 76.8 to 84.3. However, risk appetite diminished somewhat in Asia, falling 4.9 points from 88.0 to 93.1.

Measured on a quantitative basis by analysing the actual buying and selling patterns of institutional investors, associates

Ken Froot and Paul O'Connell rebased the index this month, making 100 'neutral'. This was to provide a better guide as to the level of risk tolerance.

"Readings above 100 tell us that institutional investors are increasing their allocations to risky assets, while readings below 100 indicate that institutional investors are reducing such allocations," said Froot.

"This month's increase of global investor confidence to 106.3 affirms the return of institutional investors to risk-taking behaviour that occurred last month, after a seven-month hiatus." **CK**



Investment insight

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Extractive industries: achieving transparency

Oil, gas, and mining have always been dirty businesses. Companies in these extractive industries are often forced to operate in areas of political instability, violence, bribery, and corruption. They face business risks that can significantly affect their commercial prospects and returns to investors, and there is often no alternative to operating in these commodity-rich countries.

Institutional investors with exposure to extractive companies have an interest in supporting the Extractive Industries' Transparency Initiative (EITI) as a means to contribute to improvements in governance and transparency, to ultimately enhance the prospects of their investment returns. The EITI brings together representatives of governments, companies, investors, and civil society to improve transparency through the verification and publication of company payments and government revenues from extractive industry revenues. There is growing consensus that the initiative yields genuine benefits in terms of improved financial management, accountability and business climate, evidenced by the fact that it has now been joined by 26 countries.

Many believe that countries implementing the EITI have a competitive advantage in attracting greater investment in the current risk-averse climate. The high standards of accounting and reporting inherent in the EITI help to ensure greater openness and a more level playing field in the business environment. In addition, by establishing clear systems for reporting payments, and by including a focus on the issue of social development, companies are the clear beneficiaries of a more stable economic, political, and social environment.

There is still a long way to go before the EITI standards are implemented by most extractive industries and countries, but as EITI chairman Peter Eigen put it: "The current financial and economic crisis is ultimately one of governance, or lack thereof. A multi-stakeholder coalition like ours can strengthen the governance fabric. Let us, therefore, continue to ensure that natural resource extraction really does lead to benefits for the citizens to whom the resources belong."

Over the next year, the EITI community will focus on assisting member countries to meet validation deadlines in 2010. Validation is the EITI's quality assurance mechanism verifying a country's compliance and is essential for demonstrating that the EITI model is an effective and workable tool for countries in their efforts to improve governance standards and reduce corruption.

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