

# DRAFT AMENDED

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## REGULATION ON INVESTMENT OF PENSION FUND ASSETS

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National Pension Commission

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The requirements of this Regulation are consistent with the provisions of the Pension Reform Act, 2004. The purpose of the Regulation is to provide uniform rules and standards for the investment of pension fund assets.

# REGULATION ON INVESTMENT OF PENSION FUND ASSETS

## 1.0 Institutional Framework

1.1 Pension Fund Custodians (PFCs) shall only take instructions from licensed Pension Fund Administrators (PFAs) on the investment and management of pension fund assets held in their custody, on behalf of the Contributors.

1.2 The PFCs in discharging their contractual functions to PFAs, shall not contract out the custody of pension fund assets to third parties, except for allowable investments made outside Nigeria, The PFC shall obtain prior approval from the Commission before engaging a global Custodian for such allowable foreign investments.

1.3 The PFAs in discharging their contractual functions to Contributors, shall not contract out the investment/management of

pension fund assets to third parties, except for open/close-end/hybrid funds and specialist investment funds allowed by this Regulation.

1.4 *PFAs shall maintain Active and Retiree Funds for the investment of pension fund assets of Retirement Savings Account (RSA) Funds, pending the full implementation of Multifund Structure by the Commission.*

1.5 In addition to the requirements of other guidelines issued by the Commission on corporate governance practices and business ethics, each PFA shall establish an Investment Strategy Committee as well as a Risk Management Committee, in compliance with Section 66 of the Pension Reform Act, 2004.

1.6 *The Investment Strategy Committee shall formulate internal investment strategies to enable compliance with*

- this Regulation, taking into cognizance the macro-economic environment as well as the investment objectives and risk profile of the PFA. The internal investment strategies shall be approved by the PFA in a formal Board Meeting at least once every year or as frequently as changes occur in the macroeconomic environment that may affect pension fund assets.*
- 1.7 *The Risk Management Committee shall determine the acceptable risk profile of the investment portfolio, draw up risk assessment and measurement systems, monitor their portfolio against risk tolerance limits, as well as, all other functions relating to risk management to be determined by the PFA Board and the Commission, from time to time. The Risk Management Committee shall render a report of its activities to the PFA's Board, at least once every quarter.*
- 1.8 *Each of the Committees in Sections 1.6 and 1.7 above shall have at least one Independent Director with relevant skills and experience, as a member. In addition, an*
- Independent Director shall chair the Risk Management Committee.*
- 1.9 The Commission shall provide the necessary guidelines on the investment of Pension Fund Assets outside the territory of the Federal Republic of Nigeria as and when the need arises.
- 1.10 In this Regulation: -
- 'The Commission'*** means the National Pension Commission.
- 'Securities'*** mean negotiable instruments representing financial values; and may be debt or equity securities.
- 'Securities Exchange'*** means an exchange or an approved trading facility as defined in Section 315 of the Investment and Securities Act (ISA) 2007.
- 'Exchange Traded Fund' (ETF)*** means a unit trust scheme or an open-ended investment company that issues unleveraged securities or units listed on a securities exchange recognized or registered by the Securities & Exchange Commission

*(SEC) in Nigeria and tracks the performance of specified securities or assets, which includes but is not limited to equities, basket of assets, indices, commodity prices, foreign currency rates or any other appropriate benchmark approved by SEC from time to time.*

***‘State/Local Governments’***

means all State and Local Governments of the Federal Republic of Nigeria, including the Federal Capital Territory Administration (FCTA) and Area Councils in the FCT, *which are listed in the Constitution of the Federal Republic of Nigeria.*

***‘Primary Market’*** means a market for new issues of securities wherein the proceeds of sales go to the issuer of the securities sold.

***‘Secondary Market’*** means a resale market where securities originally issued in the primary market are bought and sold.

***‘Related Persons’*** includes father, mother, child, brother, sister, uncle, aunt and cousins where applicable, their spouses and any other

relationship that can be reasonably construed as related persons or a corporate entity where any of the aforementioned holds 5% or more beneficial interest.

***‘Margin Account’*** means a brokerage account in which the broker lends money to a customer to purchase securities.

***‘PRA 2004’*** means Pension Reform Act 2004.

***‘Supra-national Bonds’*** mean debt instruments issued by Multilateral Development Finance Organizations, of which Nigeria is a member.

***‘Multilateral Development Finance Organizations’***

***(MDFOs)*** mean organizations formed between three or more nations to work on development issues that relate to all the countries in the organization e.g. World Bank Group, African Finance Corporation, African Development Bank etc.

**'PFAs'** mean Pension Fund Administrators licensed by the National Pension Commission, and include Closed Pension Fund Administrators (CPFAs).

**'PFCs'** mean Pension Fund Custodians licensed by the National Pension Commission.

**'Pension Fund Assets'** mean pension assets under management and custody with licensed pension operators.

**'Bank'** means a commercial or merchant bank licensed by the Central Bank of Nigeria.

**'Sharia Compliant Instruments'** mean financial securities that comply with the provisions of the Islamic Shariah Principles, as approved by the Shariah Advisory Council of Experts constituted by the CBN.

**'Sukuk'** mean Islamic financial instruments, similar to bonds that comply with Sharia Principles.

## **2.0 General Principles**

2.1 PFAs shall invest pension fund assets with the objectives of ensuring safety and maintenance of fair returns.

2.2 PFAs shall recruit and retain highly skilled personnel in their investment departments.

2.3 PFAs shall not invest Pension Fund Assets in instruments that are subject to any type of prohibitions or limitations on the sale or purchase of such instrument, except for open/close-end/hybrid funds and specialist investment funds allowed by this Regulation.

2.4 PFAs shall not trade on margin accounts with pension fund assets.

2.5 A PFA shall not engage in borrowing or lending of pension fund assets.

2.6 PFAs shall not trade in financial instruments with pension fund assets at prices that are prejudicial to the pension fund assets.

2.7 Pension Fund Assets shall be invested only in eligible bonds/debt instruments issued by State/Local Governments and Corporate Entities that have fully implemented the Contributory Pension Scheme. The Commission shall provide periodic lists of compliant State/Local Governments and Corporate Entities.

2.8 *PFAs are to ensure that appropriate legal and financial due diligence are undertaken on all Prospectus/Offer Documents of eligible bonds/debt securities and other allowable instruments prior to investment.*

2.9 The Commission attaches great importance to sound corporate governance practices in corporate entities or specialist investment funds seeking pension fund investments. Accordingly, PFAs are encouraged to take into consideration the following issues, amongst others, in corporate entities or specialist investment funds in which pension fund assets are to be invested :

- i. Rules governing the Board of the corporate entity or Fund.

- ii. Ongoing disclosure rules of material events in the corporate entity or Fund.

- iii. Adequate disclosures of the financial condition of the corporate entity or Fund, as stated in the annual financial statements, which must be audited by a reputable firm of chartered accountants.

2.10 *The Shariah Advisory Council of Experts constituted by the CBN shall from time to time provide a list of Shariah compliant securities/instruments.*

### **3.0 Authorized Markets**

3.1 All primary market investments by PFAs in ordinary or preference shares of eligible corporate entities shall only be through public offerings approved by the Securities & Exchange Commission (SEC).

3.2 *All primary market investments by PFAs in bonds, debentures and other debt instruments (excluding Commercial Paper) issued by corporate entities shall be through public offering or private placement*

*arrangements approved by SEC. PFAs may invest in bonds issued by private/unlisted companies through private placement arrangements provided they fulfill the requirements in section 5.2.3 of this Regulation.*

3.3 All primary market investments by PFAs in participation units of Open, Close-End, Hybrid Investment Funds, *including ETFs*, and Specialist Investment Funds (REITs, Infrastructure Fund and Private Equity Fund), shall be through public offering or private placement arrangement.

3.4 All secondary market trading of pension fund assets, shall take place in a securities exchange, registered by SEC or a trading facility recognized by the Central Bank of Nigeria (CBN).

3.5 Exceptions to paragraph 3.4 of this Regulation are applicable when;

a) Acquiring bonds and securities issued or fully guaranteed by the Federal Republic of Nigeria or CBN or eligible MDFO.

b) Trading with participation units of Open/Closed-end or Hybrid Investment Funds on the memorandum list of a securities exchange registered by SEC or a trading facility recognized by CBN; or Specialist Investment Funds (Infrastructure and Private Equity), registered by SEC.

c) Acquiring or trading in eligible securities of a corporate entity, which are listed or quoted in an offshore securities exchange, based on prior approval by SEC.

#### **4.0 Allowable Instruments**

Pension fund assets shall be invested in the following allowable instruments:

4.1 Bonds, treasury bills and other securities (including bonds denominated in foreign currencies) issued by the Federal Government and CBN or agencies and companies owned by the Federal Government, provided that the securities are fully guaranteed by the CBN or Federal Government.



4.2 Bonds issued by **eligible** State and Local Governments or State Government Agencies or wholly owned companies of the State Government, provided that such securities are fully guaranteed by Irrevocable Standing Payment Orders (ISPOs) or external guarantees by eligible banks or development finance institution or MDFOs.

4.3 *Bonds, debentures, redeemable/convertible preference shares and other debt instruments issued by listed corporate entities; bonds and debt securities issued by eligible unlisted companies; and Asset Backed Securities including Mortgage Backed Securities and Infrastructure Bonds.*

4.4 Ordinary shares of public limited liability companies listed on a securities exchange registered by SEC.

4.5 Money market instruments of banks and discount houses as well as Commercial Papers issued by corporate entities.

4.6 *Open/ Close-ended/ Hybrid Investment Funds, including*

*Exchange Traded Funds, which are registered with SEC.*

4.7 *Investment Funds whose underlying assets are tangible physical assets. These includes:*

i. *Real Estate Investment Trusts (REITs) registered by SEC.*

ii. *Private Equity Funds registered with SEC.*

iii. *Infrastructure Funds registered with SEC.*

4.8 Supranational Bonds issued by eligible MDFOs.

4.9 Global Depositary Receipts/Notes (GDRs/Ns) and Eurobonds issued by listed Nigerian companies, as certified and approved by SEC.

4.10 Shariah-compliant securities as detailed in Section 9.0 of this Regulation.

## **5.0 Quality Of Instruments**

### **5.1 Rating Requirements**

The following rating requirements shall apply:

- 5.1.1 All ratings shall be undertaken by Rating Companies registered or recognized by the Securities and Exchange Commission (SEC).
- 5.1.2 *State Government Bonds, Local Government Bonds, Corporate Bonds, Infrastructure Bonds, Supra-national Bonds and other allowable debt securities in which pension fund assets are to be invested shall have a minimum credit rating of ‘A’ by **one** registered or recognized Rating Company.*
- 5.1.3 *Notwithstanding the provisions of Section 5.1.2, PFAs may invest not more than 20% of pension assets under management in State/Local Government Bonds, corporate bonds, infrastructure bonds, supranational bonds and other allowable debt securities, with credit rating of BBB by **one** registered or recognized Rating Company.*
- 5.1.4 *Any bank in whose money market instruments pension fund assets are to be invested shall have a minimum credit rating of ‘**BBB**’ by **a** registered or recognized Rating Company. However, a discount house or corporate entity in whose money market instruments or*
- commercial paper, respectively, pension fund assets are to be invested shall have a minimum credit rating of ‘A’ by **one** registered or recognized Rating Company.*
- 5.1.5 The minimum rating specified above shall be maintained throughout the tenor of the investments.
- 5.1.6 If at any time an existing investment is no longer authorized as a result of credit rating downgrade, resulting in a new rating that is not more than one grade below the stipulated minimum, the pension fund may retain such investment to maturity.
- 5.1.7 If at any time an existing investment is no longer authorized, as a result of either a credit rating downgrade by more than one grade or for any other reason, the PFA shall forward its exit strategy to the Commission within 10 working days.
- 5.1.8 PFAs shall not rely only on ratings assigned by Rating Companies, as they are only complementary to PFAs internal due diligence and

analysis, before investment in any instrument or issuer.

## 5.2 Other Quality Requirements

5.2.1 Pension Fund Assets can be invested in bonds/debt instruments issued by any State/Local Government or its agencies or wholly-owned companies as stipulated in Section 2.7 of this Regulation, provided that such securities:

- i. Are approved by SEC.
- ii. Meet the rating requirements in Section 5.1
- iii. Have sinking funds that are backed by legislation as well as Irrevocable Standing Payment Orders (ISPOs) or external guarantee by a bank, development finance institution or MDFOs acceptable to the Commission.
- iv. Where the bond/debt instrument is not backed by ISPOs, it shall have a sinking fund backed by legislation and an Irrevocable Letter of Guarantee of Repayment of the instrument, supported with adequate Internally Generated

Revenue and a trust arrangement with a reputable Trustee registered with SEC.

- v. Are currently traded or are trade-able on a securities exchange registered by SEC or trading facility recognized by CBN.

5.2.2 Pension Fund Assets can be invested in bonds, debentures, redeemable/convertible preference shares and other debt instruments issued by corporate entities, subject to the following conditions:

- i. They have been duly issued.
- ii. They meet the rating requirements in Section 5.1
- iii. They have clearly defined term/maturity features, periodic and terminal payout.
- iv. Where such securities have any embedded options e.g. callable, puttable etc, they must be clearly stated in the offer document/prospectus.
- v. They are currently traded or are trade-able on a securities exchange registered by SEC or a

trading facility recognized by CBN.

5.2.3 *Pension Fund Assets can be invested in bonds issued by private/unlisted companies through private placement arrangements, provided that the following requirements are met:*

- i. *The private/unlisted company shall have, at least, three years audited financial statements prepared by a reputable audit firm.*
- ii. *Its key principals and controlling shareholders must have satisfied SEC's Fit and Proper Persons requirements, and in particular, they must not have been convicted for any offence involving fraud or provision of false/misleading information or any other offence stipulated in the Investment and Securities Act (ISA) 2007.*
- iii. *The issuer must voluntarily register the Private Placement Memorandum (PPM) with SEC and*

*disclose all relevant information necessary for PFAs to properly assess the risks involved. .*

- iv. *The PPM, registered and filed with SEC, must at all times be updated with relevant information concerning the issuance.*
- v. *The registration and filing of the issuance with SEC shall be carried out on behalf of the issuer by a SEC-regulated entity such as an Issuing House. The issuing house shall not be a related party to the Issuer, as provided in section 1.10 of this Regulation.*
- vi. *The responsibilities of the issuing house include the preparation of the PPM, its permanent actualization during the placement period, making potential investors to receive exactly the same information at the same time, amending the registered PPM when necessary and communicating those amendments to potential*

*investors, ensuring that all investors are qualified investors, which must include a minimum of three PFAs.*

*vii. The issuing house shall have a minimum investment of 5% of the Hybrid Private Placement Issue.*

*viii. The issuer is primarily responsible for providing accurate and truthful information to potential investors. The issuing house shall ensure that to the best of its knowledge the information provided by the issuer is truthful.*

*ix. The Registered Private Placement Contract Document must include an arbitration clause by which all parties involved, namely, the issuer, the issuing house and all qualified investors shall declare that any arising conflicts or disagreements shall be resolved by an Alternative Dispute Resolution (ADR)*

*mechanism/body in Nigeria, such as arbitration and Multi-Door Court House platforms. All parties must recognize the sovereignty of the decisions of such a body.*

*x. PFAs that invest in debt securities issued under the hybrid private placement arrangement are encouraged to act collectively to pursue any arising conflicts, as highlighted in clause ix above.*

*xi. The PPM must not include any clause that implies directly or indirectly that the issued debt securities are subordinate to other creditors of the issuer, in case of any default.*

5.2.4 Pension Fund Assets can be invested in infrastructure projects through eligible bonds or debt securities, subject to the following requirements:

*i. The infrastructure project shall be:*

- a.) not less than N5 billion in value.
  - b.) awarded to a concessionaire with good track record through an open and transparent bidding process in accordance with the due process requirements of the Public Private Partnership (PPP) Policy, as certified by the Infrastructure Concession and Regulatory Commission (ICRC) and approved by the Federal Executive Council (FEC).
  - c.) *core infrastructure projects, whose business plans and financial projections indicate that they are viable as well as economically and financially rewarding for investment by pension funds.*
- ii. The **bonds** or **debt instruments** issued to finance the infrastructure project shall in addition to the requirements of Section 5.2.2 above:
- a.) have robust credit enhancements e.g. guarantees by the Federal Government or eligible bank/ development finance institution or MDFOs;
  - b.) have a maturity date that is prior to the expiration of the concession; and
  - c.) *have a feasible and enforceable redemption procedure in the event of project suspension, cancellation or, in the case of regulated sectors, when changes in regulatory or policy decisions make the project to differ significantly from its original financial projections.*
- iii) Where infrastructure projects are financed through **Specialist Infrastructure Funds**, pension fund investments shall be subject to the following additional requirements:
- a.) *The value of the Infrastructure Fund shall not be less than N5billion.*
  - b.) The Infrastructure Fund shall have well defined and publicized investment

objectives and strategy as well as disclosures of pricing of underlying assets, including any other necessary information. All annual financial statements of the Fund shall be audited by reputable firms of chartered accountants.

- c.) The Infrastructure Fund shall have satisfactory pre-defined liquidity/exit routes.
- d.) The Funds shall be managed by experienced Fund Managers, versed in infrastructure financing and registered with the SEC as Fund Managers.
- e.) *A minimum of 75% of the Infrastructure Fund shall be invested in projects within Nigeria.*
- f.) The key Principals, namely the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), of the Fund Manager shall have at least ten (10) years relevant experience in infrastructure financing; and shall not exit the Fund without prior notice

to the PFAs. This 'exit clause' shall be expressly stated as a condition in the investment agreement/ covenant between PFA and Fund Manager.

- g.) *Where an Infrastructure Fund does not have development finance institutions or MDFOs as co-investors, but the Fund Manager has a minimum Investment Manager rating of BBB issued by a rating company registered or recognized by SEC, the Fund Manager shall retain a minimum investment of 3% of the Infrastructure Fund.*
- h.) *Where the Infrastructure Fund has development finance institutions or multilateral development finance organizations as co-investors, the Fund Manager shall retain a minimum of 1% of the Infrastructure Fund.*
- i.) *The Fund shall have an **Advisory Board** with independent representatives of institutional investors being in majority.*

j.) *Prior to investment as well as during the tenor of investment in any Infrastructure Fund, PFAs are to ensure that the above-mentioned Advisory Board has responsibility over audit functions regarding:*

- *the evaluation of projects prior to investment,*
- *transactions with parties related to the Infrastructure Fund Manager*
- *strategies concerning divestment from projects in which the Infrastructure Fund has interests.*

**5.2.4** *Pension fund assets can only be invested in ordinary shares of public limited companies based on the following conditions:*

- i. *the issuing companies' shares are listed/quoted on a securities exchange registered by SEC.*
- ii. *the public limited liability company has an operating track record of having made taxable profits for, at least, three out of the five years preceding the investment, and paid dividends or issued bonus shares for at least one year within the five years.*

**5.2.5** Pension Fund Assets can be invested in the money market instruments of banks/discount houses and the commercial paper of corporate entities, based on the following conditions:

- i. The bank/discount house or corporate entity shall meet the rating requirements in Section 5.1.3.
- ii. In the case of Bankers Acceptances (BAs) issued on behalf of a third party, they shall carry the full guarantee of the bank.
- iii. Where the investment is in a Commercial Paper (CP), it shall be in compliance with the CBN's guidelines on the issuance and treatment of BAs and CPs.

**5.2.6** Due to the reason of subjective valuation of real estate properties, RSA Funds under management with PFAs cannot directly invest in Real Estate; as investments shall only be through instruments such as Mortgage Backed Securities (MBS) and Real Estate Investment Trusts (REITS). However, CPFAs and Approved Existing Schemes



that operate Defined Benefit Schemes are allowed to directly invest in Real Estate, subject to Guidelines issued by the Commission from time to time.

5.2.7 Such MBS in Section 5.2.6 above shall satisfy the following requirements:

- i. Meet the rating requirements in Section 5.1.1.
- ii. The face value of the issue is not less than N1 billion.
- iii. The market value of the mortgages securitizing the issued MBS shall not be lower than the ratio 1.3:1. Any shortfall in the value of the collateral can be made up by FGN Securities, with face value not exceeding 25% of the MBS.
- iv. They are trade-able on a securities exchange registered by SEC.
- v. *The Promoters/Originators shall retain a minimum of 5% of the issue, which shall be maintained throughout the tenor of the issue.*

vi. Make full disclosure of information on the Fund to investors, including corporate governance standards, pricing of underlying assets and any information necessary for assessing inherent risks in each investment, including issues of title to land and properties.

5.2.8 Such REITs in Section 5.2.6 shall satisfy the following requirements:

- i. *Meet the rating requirements in Section 5.1. However, where it is an Initial Public Offer, the Fund Manager shall have a minimum Investment Manager rating of 'BBB'.*
- ii. *The Principals of the Fund Manager, namely, the Chief Executive Officer and Chief Investment Officer shall each have a minimum of 10 years relevant investment management experience or relevant project management experience, five years of which must have been in senior management positions.*
- iii. *The face value of the issue is not less than N1 billion.*

iv. *The Prospectus shall specifically state that the securities shall be listed or have memorandum listing on a registered or recognized Securities Exchange.*

v. *The Promoters shall retain a minimum of 5% of the Fund.*

vi. *Make full disclosure of information on the Fund to investors, including corporate governance standards, pricing of underlying assets and any information necessary for assessing inherent risks in each investment, including issues of title to land and properties.*

5.2.9 Pension Fund Assets can be invested in Asset Backed Securities (ABS), if the issuer and the securities meet the requirements stipulated in Section 5.2.7 above.

5.2.10 *Pension Fund Assets can be invested in the investment certificates of Open, Closed-End or Hybrid Investment Funds, including Indexed/Exchange Traded Funds (ETFs), based on the following criteria:*

i. The Fund is approved and registered by SEC.

ii. The Fund has memorandum listing on a Securities Exchange registered by SEC.

iii. The Promoters shall retain a minimum of 10% of the Fund, as per SEC Rules. This shall however not apply to Open-end Funds.

iv. The Principals managing the Funds, namely, the Chief Executive Officer and Chief Investment Officer shall each have a minimum of 10 years relevant and continuous investment management experience, five years of which must have been in senior management positions.

v. There are full disclosures of information on the Fund to investors including investment and risk management strategies, corporate governance standards, yearly audited financial statements, amongst others.

vi. *Where it is an ETF:*

- a.) *It shall be listed and trade-able on a Securities Exchange registered by SEC.*
- b.) *The Fund Manager shall possess the relevant expertise to issue the ETF as well as establish and maintain a secondary market for the issuance.*
- c.) *Pension fund assets shall only invest in ETFs that track the performance of an Index or basket of eligible securities quoted on a Securities Exchange registered with SEC. In other words, for now, pension fund assets shall not invest in ETFs that track the performances of commodities or currency exchange rates until a foreseeable future when adequate skills and experience would have been garnered by pension operators.*
- d.) *The underlying Index or basket of securities whose performance the ETF intends to track shall be clearly stated in the prospectus/offer document.*
- e.) *The underlying securities of the ETF shall be held in a Custody/Depository Account approved by SEC.*

subject to the following requirements:

- i. *The Fund shall have well defined and publicized investment objectives and strategy as well as disclosures of pricing of underlying assets; annual financial statements audited by reputable firms of chartered accountants; and any other necessary information.*
- ii. *The PE Fund Vehicle shall have satisfactory pre-defined liquidity/exit routes such as Initial Public Offers; Dividends; Sale to industry buyers; and use of buy-out instruments in investing in the underlying companies or projects.*
- iii. *The Funds shall be managed by experienced Fund Managers, versed in PE investments and registered with the Securities and Exchange Commission (SEC) as Fund Managers.*
- iv. *The key Principals of the Fund Manager shall each have at least ten (10) years experience in investment and management of third party assets, or relevant project management experience*

5.2.11 Pension Fund Assets can be invested in Private Equity Funds,

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*in sectors of the economy in which the PE Fund shall invest, out of which five years shall be PE investment experience. The key Principals shall not exit the Fund without prior notice to the Commission through the PFA; and this 'exit clause' shall be expressly stated as a condition in the investment agreement/ covenant between PFA and Fund Manager.*

v. *Where a PE Fund does not have development finance institutions or MDFOs as co-investors or Limited Partner, but the Fund Manager has a minimum Investment Manager rating of BBB issued by a rating company registered or recognized by SEC, the Fund Manager shall retain a minimum investment of 3% of the Infrastructure Fund.*

vi. *However, where there are reputable development finance institutions or multilateral development finance organizations as limited partners or co-investors in the Fund or any other Pan-African /Multi-country PE Fund being managed by the Fund Manager, the Fund Manager shall retain a minimum investment of 1% of the PE Fund.*

vii. A minimum of 75% of the Fund shall be invested in companies or projects within Nigeria.

viii. The Fund shall have an **Advisory Board** with independent representatives of institutional investors being in majority.

ix. *PFAs are to ensure at all times that the above-mentioned Advisory Board has responsibility over audit functions at least regarding*

a.) *the evaluation of projects prior to investment;*

b.) *transactions with parties related to the Private Equity Fund Manager; and*

c.) *strategies concerning divestiture of investments in which the Private Equity Fund has interests.*

5.2.12 Pension Fund Assets can only be invested in Supranational Bonds and debt instruments if:

i. The bonds/debt instruments meet the rating requirements in Section 5.1.

- ii. The issue is approved by the CBN and SEC.
  - iii. A minimum of 75% of the proceeds are utilized for projects within Nigeria.
  - iv. The amount on issue shall not be less than N5 billion.
- 5.2.13 Pension Fund Assets can be invested in Global Depository Receipts/Notes (GDRs/Ns) and Eurobonds issued by Nigerian listed/quoted companies. Such investments shall be in line with the Guidelines issued by the Commission for Investment in Global Depository Receipts/Notes and Eurobonds.
- 6.0 Conflict of Interest Issues**
- 6.1 The PFA or any of its agents are prohibited from investing Pension Fund Assets in the shares or any other securities, issued through public or private placement arrangements, by the following:
- i. A Pension Fund Administrator.
  - ii. A Pension Fund Custodian.
  - iii. A shareholder, director or affiliate of the PFA or PFC holding Pension Fund Assets on its behalf.
  - iv. Affiliates of any shareholder of the PFA.
  - v. An employee of the PFA.
  - vi. The spouse or any relationship with persons referred to in (iii) to (v) of this paragraph that can be reasonably construed as a related person.
- 6.2 *Exception to Section 6.1 shall only be PFA's investment in short-term money market instruments of an affiliate bank/discount house of the PFA or the PFC holding pension fund assets on its behalf.*
- 6.3 The PFA or any of its agents shall not sell Pension Fund Assets to the following:
- i. Itself.
  - ii. A Pension Fund Custodian
  - iii. Any shareholder, director or affiliate of the PFA or PFC holding pension fund assets on its behalf.
  - iv. Affiliates of any shareholder of the PFA.
  - v. Any employee of the PFA.
  - vi. The spouse or any relationship with persons referred to in (iii) to (v) of this paragraph that can be reasonably construed as a related person.

- vii. The PFC holding Pension Fund Assets to the order of the PFA.
- 6.4 The PFA or any of its agents shall not:
- i. Apply Pension Fund Assets under its management by way of loans and credits, or as collateral for any loan taken by any person.
  - ii. Divulge or utilize confidential information regarding Pension Fund Assets investment decisions for any personal, corporate or related benefit.
- 6.5 *Each PFA shall not transact more than 20% of its equity and bond trades (purchases and sales valued in Naira terms) with broker-dealer firms that are related parties to the PFA, its shareholders, Directors & affiliate companies.*
- 6.6 Members of the Board, Chief Executive Officer and Chief Investment Officer of PFAs shall abstain from taking investment decisions in which they have conflicts of interest.
- 6.7 *Each PFA shall develop a framework and establish a*

*Committee that would review Conflict of Interest Issues and render quarterly reports to the Commission. The reports shall contain, amongst other necessary information, the nature of all conflict of interest issues and transactions concerning related persons within the period; values of such transactions; treatment of such issues/transactions; resolutions/decisions taken; and follow up actions, if any.*

## **7.0 Multi-fund Structure**

*The following principles shall guide the operation & implementation of Multifund Structure by PFAs for RSA Funds.*

7.1 *All PFAs shall offer the Multi-fund Structure for the RSA Fund.*

## **7.2 Fund Types**

*Notwithstanding the structure of limits in section 7.4.9, the respective Funds shall differ among themselves according to the overall exposure to variable income instruments.*

*a. The exposure to variable income instruments is defined as the sum of the PFA's investments in*

ordinary shares and participation units of open and close-ended funds, infrastructure funds, private equity funds and investment funds, comprising its current holdings and any future financial commitments to the acquisition of the respective participation units.

b. In line with (a) above, the maximum exposure to variable income instruments by the Fund Types, are as follows:

i. Fund I: 70% of Portfolio Value

ii. Fund II: 50% of Portfolio Value

iii. Fund III: 30% of Portfolio Value

c. Using the same yardstick, PFAs are also expected to invest in such a way that the actual exposure to variable income instruments in Fund I is higher than the exposure in Fund II. Likewise, the exposure in Fund II shall be higher than the exposure in Fund III. Accordingly, the minimum exposure to variable income instruments by Fund Type shall be:

Fund I: 10%

Fund II: 5%

Fund III: 0%

### **7.3 Non Interest/Ethical Fund (in accordance with Islamic Principles) – Fund IV**

7.3.1 A Non-Interest/Ethical Fund, strictly in compliance with Islamic Shariah Principles, shall be maintained for both active and retiree RSA holders who may choose to participate in this Fund.

7.3.2 The general principles and criteria for investment of pension fund assets as outlined in **Sections 2.0 to 6.0** of this Regulation shall also apply to this Fund.

7.3.3 This Fund shall be invested in allowable instruments, as outlined below:

i. Sovereign Sukuk, Islamic Treasury bills and other securities issued or fully guaranteed by the Federal Government or the Central Bank of Nigeria, including Infrastructure Sukuk.

ii. Sukuk issued by State/Local Governments, with legislated sinking funds backed by ISPOs/Guarantees, as stipulated in Section 4.2.

iii. *Sukuk (including MBS, ABS and Infrastructure Sukuk) issued by corporate entities.*

iv. *Shari'ah-compliant Supranational Sukuk issued by Islamic Multilateral Development Finance Organizations, of which Nigeria is a member.*

v. *Shari'ah-compliant Money market securities of banks/discount houses and Commercial Paper of corporate entities.*

vi. *Shari'ah screened Ordinary Shares of companies listed/quoted on a securities exchange registered by SEC.*

vii. *Shari'ah-compliant Mutual Funds and Specialist Investment Funds, including Open/Closed-end/ Hybrid Funds, REITs, ETFs, Private Equity Funds and Infrastructure Funds etc.*

#### **7.4 Fund Choice and Default Options**

*Contributors are allowed to choose the Type of Fund in which they desire to be. However, the following restrictions shall apply:*

#### **7.4.1 Restrictions on Active Choices**

i. *Funds I is only eligible for contributors who are aged 40 years and below, as at their last birthdays.*

ii. *Fund II is only eligible for contributors who are up to 50 years old, as at their last birthdays.*

#### **7.4.2 Default Mechanism**

*Where there are no active choices made by contributors, the PFAs shall allocate contributors to various Fund Types according to the following criteria:*

i. *Contributors who are 35 years of age and below shall be assigned to Fund I.*

ii. *Contributors who are from 36years to 45 years old shall be assigned to Fund II.*

iii. *Contributors who are 46years and above shall be assigned to Fund III.*

#### **7.4.3 Prohibition**

*RSA holders or Retirees above 45years shall not be allowed to choose Fund I.*



7.4.4 *Transfers between Fund Types within a PFA*

7.4.5 *An RSA holder, subject to a formal application made to the PFA, may switch from one Fund Type to another Fund Type in a given PFA, once in a calendar year without paying any fees.*

7.4.6 *Additional requests for switches among Funds within a PFA by the RSA holder shall attract a fee, of an amount not less than a minimum value to be determined by the Commission from time to time.*

## **8.0 Investment Limits**

This Section stipulates the maximum investment limits for each Fund Type under the Multifund Structure.

### **8.1 Overriding Limits**

8.1.1 Not more than 10% of pension assets under management shall be invested in all instruments/securities (equity, money market and debt) issued by any one corporate entity.

8.1.2 PFAs shall ensure that not more than 35% of pension assets under

its management are directly or indirectly invested in any one sector of the Nigerian economy.

8.1.3 For the purposes of Section 8.1.2 of this Regulation:

i. Sectors are as classified by the Nigerian Stock Exchange (NSE).

ii. Direct investment to a given sector consists of all securities issued by corporate entities operating in that sector.

iii. Indirect investment to a given sector consists of all investments in other allowable investment funds in which pension fund assets are actually invested.

8.1.4 Without prejudice to Section 8.1.2, the following transitional arrangements shall apply:

i. A maximum of 45% of pension fund assets under management may be invested in any one sector of the economy up to 30 June, 2012.

ii. A maximum of 40% of pension fund assets under management may be invested

in any one sector of the economy up to 30 June, 2013.

- iii. A maximum of 35% of pension fund assets under management may be invested in any one sector of the economy up to 30 June, 2014.

8.1.5 The overall maximum Investment Limits for Funds I, II, III and IV shall therefore be as follows:

## FUND I

	ASSET CLASS	GLOBAL PORTFOLIO LIMIT	PER ISSUER LIMIT	PER ISSUE LIMIT
1	<b>Government Securities</b>	FGN & CBN Securities: 40%	Not Applicable	Not Applicable
		State and Local Governments:  i. 10%, if issue is backed by ISPOs/ Guarantees, as stipulated in Section 4.2.  ii. 3%, if issue is not backed by ISPOs/ Guarantees, as stipulated in Section 4.2.	Maximum of 5% of pension assets under management in total issues of any one State or Local Government.	Based on the credit rating of the bond/debt instrument thus:  i) Rating of BBB: 16% of the issue  ii) Rating of A: 20% of the issue  iii) Rating of AA & above: 25% of the issue
2	<b>Corporate Bonds /Debt Securities (including ABS, MBS and Infrastructure Bonds)</b>	45%, subject to a maximum of 25% in Infrastructure Bonds.	Maximum of 7.5% of pension assets under management in total issues of any one corporate entity.	Based on the credit rating of the bond/ debt instrument thus:  i) Rating of BBB: 20% of the issue  ii) Rating of A: 25% of the issue  iii) Rating of AA & above: 30% of the issue

3	<b>Supra-national bonds</b>	20%	Maximum of 5% of pension assets under management in total issues of any one multilateral development finance organization.	Based on the credit rating of the bond/ debt instrument thus:  i. Rating of “BBB”: 20% of the issue  ii. Rating of “A”: 25% of the issue  iii. Rating of “AA & above”: 30% of the issue
4	<b>Money Market Instruments (including Certificates of Deposits; Bankers Acceptances; and Commercial Paper of corporate entities)</b>	35%	I. Maximum investment of pension assets in all money market instruments issued by any one bank shall be subject to the issuer’s credit rating thus:  i. Rating of “BBB”: 3% of value of pension assets  ii. Rating of “A”: 5% of value of pension assets  iii. Rating of “AA” & above: 7.5% of value of pension assets  II. A maximum of 3% of value of pension assets may be invested in all money market	<b>Applicable to Commercial Paper issues Only.</b>  Based on the credit rating of the corporate entity issuing the Commercial Paper thus:  i. Rating of BBB: 16% of the issue  ii. Rating of “A”: 20% of the issue  iii. Rating of “AA & above”: 25% of the issue

			<p>instruments of any one discount house with a minimum rating of 'A'.</p> <p>III. For Commercial Paper, maximum of 5% of value of pension assets may be invested in total issues of any one corporate entity with a minimum rating of 'A'.</p>	
5	<b>Ordinary Shares</b>	50%	Maximum of 7.5% of value of pension assets in any one corporate entity.	Maximum of 4.5% of the issued capital of any one corporate entity.
6.	<b>Infrastructure Funds</b>	10%	Maximum of 5% of value of pension assets to any one issuer.	Maximum of 20% of the value of any one Fund
7	<b>Private Equity Funds</b>	10%	Maximum of 5% of value of pension assets to any one issuer.	Maximum of 20% of the value of any one Fund
8	<b>Open, Close-end and Hybrid Funds (including REITs)</b>	30%	Maximum of 10% of value of pension assets to any one issuer.	Maximum of 10% of any one Fund.

## FUND II

	ASSET CLASSES	GLOBAL PORTFOLIO LIMITS	PER ISSUER LIMITS	PER ISSUE LIMITS
1	<b>Government Securities</b>	FGN & CBN Securities: 60%	Not Applicable	Not Applicable
		State and Local Governments  i. 15%, if issue is backed by ISPOs/ Guarantees, as stipulated in Section 4.2.  ii. 3%, if issue is not backed by ISPOs/ Guarantees, as stipulated in Section 4.2.	Maximum of 5% of pension assets under management in total issues of any one State or Local Government.	Based on the credit rating of the bond/debt instrument thus:  i) Rating of BBB: 16% of the issue  ii) Rating of A: 25% of the issue  iii) Rating of AA & above: 30% of the issue
2	<b>Corporate Bonds /Debt Securities (including ABS, MBS &amp; Infrastructure Bonds)</b>	40%, subject to a maximum of 20% in Infrastructure Bonds	Maximum of 5% of pension assets under management in total issues of any one corporate entity.	Based on the credit rating of the bond/ debt instrument thus:  i) Rating of BBB: 16% of the issue  ii) Rating of A: 20% of the issue  iii) Rating of AA & above: 25% of the issue

3	<b>Supra-national bonds</b>	20%	Maximum of 5% of pension assets under management in total issues of any one multilateral development finance organization.	Based on the credit rating of the bond/ debt instrument thus:  i. Rating of “BBB”: 20% of the issue  ii. Rating of “A”: 25% of the issue  iii. Rating of “AA & above”: 30% of the issue
4	<b>Money Market Instruments (including Certificates of Deposits; Bankers Acceptances; and Commercial Paper of corporate entities)</b>	35%	I. Maximum investment of pension assets in all money market instruments issued by any one bank shall be subject to the issuer’s credit rating thus  i. Rating of “BBB”: 3% of value of pension assets  ii. Rating of “A”: 5% of value of pension assets  iii. Rating of “AA” & above: 7.5% of value of pension assets  II. A maximum of 3% of value of pension assets may be invested in all money market instruments of any one	<b>Applicable to Commercial Paper issues Only.</b>  Based on the credit rating of the corporate entity issuing the Commercial Paper thus:  i. Rating of “BBB”: 16% of the issue  ii. Rating of “A”: 20% of the issue  iii. Rating of “AA & above”: 25% of the issue

			discount house with a minimum rating of 'A'.  III. For Commercial Paper, maximum of 5% of value of pension assets may be invested in total issues of any one corporate entity with a minimum rating of 'A'.	
5	<b>Ordinary Shares</b>	30%	Maximum of 5% of value of pension assets in any one corporate entity.	Maximum of 4.5% of issued capital of any one corporate entity.
6.	<b>Infrastructure Funds</b>	5%	Maximum of 5% of value of pension assets to any one issuer.	Maximum of 20% of the value of any one Fund
7	<b>Private Equity Funds</b>	5%	Maximum of 5% of value of pension assets to any one issuer.	Maximum of 20% of the value of any one Fund
8	<b>Open, Close-end and Hybrid Funds (including REITs)</b>	20%	Maximum of 5% of value of pension assets to any one issuer.	Maximum of 10% of any one Fund.



## FUND III

	<b>ASSET CLASSES</b>	<b>GLOBAL PORTFOLIO LIMITS</b>	<b>PER ISSUER LIMITS</b>	<b>PER ISSUE LIMITS</b>
1	<b>Government Securities (including Eurobonds)</b>	FGN & CBN Securities: 80%	Not Applicable	Not Applicable
		State and Local Governments  i.20%, if issue is backed by ISPOs/ Guarantees, as stipulated in Section 4.2.  ii.)3%, if issue is not backed by ISPOs/ Guarantees, as stipulated in Section 4.2.	Maximum of 7.5% of pension assets under management in total issues of any one State or Local Government.	Based on the credit rating of the bond/debt instrument thus:  i)Rating of BBB: 20% of the issue  ii)Rating of A: 25% of the issue  iii)Rating of AA & above: 30% of the issue
2	<b>Corporate Bonds /Debt Securities (including ABS, MBS, Infrastructure Bonds, GDNs and Eurobonds)</b>	35%, subject to a maximum of 15% in Infrastructure Bonds	Maximum of 5% of pension assets under management in total issues of any one corporate entity.	Based on the credit rating of the bond/ debt instrument thus:  i)Rating of BBB: 16% of the issue  ii) Rating of A: 20% of the issue  iii)Rating of AA & above: 25% of the issue
3	<b>Supra-national</b>	20%	Maximum of 5% of pension assets under	Based on the credit rating of the bond/

	<b>bonds</b>		management in total issues of any one multilateral development finance organization.	debt instrument thus: iv. Rating of “BBB”: 20% of the issue v. Rating of “A”: 25% of the issue vi. Rating of “AA & above”: 30% of the issue
4	<b>Money Market Instruments (including Certificates of Deposits; Bankers Acceptances; &amp; Commercial Paper of corporate entities)</b>	35%	I. Maximum investment of pension assets in all money market instruments issued by any one bank shall be subject to the issuer’s credit rating thus: iv. Rating of “BBB”: 3% of value of pension assets v. Rating of “A”: 5% of value of pension assets vi. Rating of “AA” & above: 7.5% of value of pension assets  II. A maximum of 3% of value of pension assets may be invested in all money market instruments of any one discount house with a minimum rating of ‘A’.	<b>Applicable to Commercial Paper issues Only.</b>  Based on the credit rating of the corporate entity issuing the Commercial Paper thus: i. Rating of BBB: 16% of the issue. ii. Rating of “A”: 20% of the issue iii. Rating of “AA & above”: 25% of the issue

			III. For Commercial Paper, maximum of 5% of value of pension assets may be invested in total issues of any one corporate entity with a minimum rating of 'A'.	
5	<b>Ordinary Shares</b>	10%	Maximum of 2.5% of value of pension assets in any one corporate entity.	Maximum of 4.5% of the issued capital of any one corporate entity.
6.	<b>Infrastructure Funds</b>	0%	Not Applicable	Not Applicable
7	<b>Private Equity Funds</b>	0%	Not Applicable	Not Applicable
8	<b>Open, Close-end and Hybrid Funds (including REITs)</b>	10%	Maximum of 5% of value of pension assets to any one issuer.	Maximum of 10% of any one Fund.

## FUND IV

	ASSET CLASSES	GLOBAL PORTFOLIO LIMITS	PER ISSUER LIMITS	PER ISSUE LIMITS
1	<b>Government Sukuk (including Islamic Treasury Bills issued by FGN, CBN or FGN Agencies and Infrastructure Sukuk, backed by FGN/CBN guarantee)</b>	FGN & CBN Sukuk: 80%	Not Applicable	Not Applicable
		State and Local Governments iii. 15%, if issue is backed by ISPOs/ Guarantees, as stipulated in Section 4.2. ii.3%, if issue is not backed by ISPOs/ Guarantees, as stipulated in Section 4.2.	Maximum of 5% of pension assets under management in total issues of any one State or Local Government.	Based on the credit rating of the sukuk thus: i) Rating of BBB: 16% of the issue ii) Rating of A: 25% of the issue iii) Rating of AA & above: 30% of the issue
2	<b>Corporate Sukuk (including ABS, MBS &amp; Infrastructure Sukuk)</b>	35%, subject to a maximum of 20% in Infrastructure Bonds	Maximum of 5% of pension assets under management in total issues of any one corporate entity.	Based on the credit rating of the sukuk thus: i) Rating of BBB: 16% of the issue ii) Rating of A: 20% of the issue iii) Rating of AA & above: 25% of the issue
3	<b>Supra-</b>	20%	Maximum of 5% of	Based on the credit

	<b>national Sukuk</b>		pension assets under management in total issues of any one multilateral development finance organization.	rating of the sukuk thus:  i. Rating of “BBB”: 20% of the issue  ii. Rating of “A”: 25% of the issue  iii. Rating of “AA & above”: 30% of the issue
4	<b>Shariah-compliant Money Market Instruments (including Bankers Acceptances; Commercial Papers of corporate entities)</b>	20%	I. Maximum investment of pension assets in all money market instruments issued by any one bank shall be subject to the issuer’s credit rating thus  i. Rating of “BBB”: 3% of value of pension assets  iv. Rating of “A”: 5% of value of pension assets  iii. Rating of “AA” & above: 7.5% of value of pension assets  II. A maximum of 3% of value of pension assets may be invested in all money market instruments of any one	<b>Applicable to Commercial Paper issues Only.</b>  Based on the credit rating of the corporate entity issuing the Commercial Paper thus:  i. Rating of “BBB”: 16% of the issue  ii. Rating of “A”: 20% of the issue  iii. Rating of “AA & above”: 25% of the issue

			discount house with a minimum rating of 'A'.  III. For Commercial Paper, maximum of 5% of value of pension assets may be invested in total issues of any one corporate entity with a minimum rating of 'A'.	
5	<b>Shariah-compliant Ordinary Shares</b>	25%	Maximum of 5% of value of pension assets in any one corporate entity.	Maximum of 4.5% of issued capital of any one corporate entity.
6.	<b>Shariah-compliant Infrastructure Funds</b>	5%	Maximum of 5% of value of pension assets to any one issuer.	Maximum of 20% of the value of any one Fund
7	<b>Shariah-compliant Private Equity Funds</b>	5%	Maximum of 5% of value of pension assets to any one issuer.	Maximum of 20% of the value of any one Fund
8	<b>Shari'ah compliant Open/Closed-end/Hybrid Investment Funds (including ETFs&amp; REITs)</b>	20%	Maximum of 5% of value of pension assets to any one issuer.	Maximum of 10% of any one Fund.

## 9.0 Performance Benchmark

9.1 *The quarterly and annual rates of return on all Funds shall be publicly disclosed by the PFAs and the Commission.*

9.2 The annual rates of return shall be based on the audited financial statements of the Funds; whilst a 3-year rolling average performance of the Fund shall also be disclosed.

## 10.0 Violations of Investment Limits

10.1 Limits imposed by this Regulation may be temporarily violated in cases of asset revaluation.

10.2 However, where such violation results from market appreciation in the value of securities, the PFA shall immediately notify the Commission and make no further purchases of such security until the portfolio is rebalanced.

10.3 If at any time a Pension Fund Administrator (PFA) willfully violates any of the investment limits so prescribed in Sections 8.0 and 9.0 of this Regulation, the PFA may maintain the investments but shall not make any additional investments in that instrument until there is rebalancing due to

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increase in portfolio value. In addition, the PFA shall pay a penalty for violation of the approved limit, as may be determined by the Commission.

If a bank/discount house fails to fulfill the rating requirements stated in Section 5.1.2 of this Regulation, the PFA shall divest itself of all money market instruments issued by the bank within the following 3 months.

## 11.0 Voting Rights

11.1 *PFAs shall observe due diligence and instruct the PFCs with regards to the exercise of voting rights acquired as a result of Pension Fund Assets held on their behalf by PFCs.*

## 12.0 Closed Pension Funds and Approved Existing Schemes

12.1 Pursuant to Section 39 (1) (f) of the PRA 2004, all investments made in assets prior to the commencement of the Act, which are contrary to Section 73 of the Act and this Regulation, by entities whose existing schemes have been approved to continue to exist by the Commission, may be maintained. This is, however, subject to

appropriate guidelines that may be issued by the Commission.

12.2 CPFAs and Approved Existing Schemes may continue to invest in approved asset classes and securities (including real estate properties and foreign investments) provided that they do not exceed the investment limits specified in their internal investment guidelines as approved by the Commission.

12.3 *Notwithstanding the provisions of Section 12.2 above, CPFAs/AESs shall not convert Naira into foreign currencies for investments outside Nigeria, without compliance with Section 74 (2) of PRA 2004 and Guidelines on Foreign Investment to be issued by the Commission from time to time.*

12.4 Where a Closed Pension Fund or Approved Existing Scheme had invested up to the investment limit prescribed for that asset class in its internal investment guidelines, it may only make new investments in that asset class if there is portfolio growth to accommodate the additional investments.

12.5 *CPFAs and Approved Existing Schemes may directly invest in real estate properties, subject to their*

*Internal Investment Guidelines and Guidelines on Direct Real Estate Investments issued by the Commission.*

12.6 CPFAs and Approved Existing Schemes operating defined contribution schemes may maintain separate Funds for Existing and Retired employees, which should be reflected in the internal investment guidelines approved by the Commission.

12.7 Any amendment(s) to the internal investment guidelines of a CPFA/Approved Existing Scheme shall have prior approval by the Commission before implementation.

### **13.0 Reviews**

13.1 This Regulation is subject to regular reviews by the Commission.