NATIONAL PENSION COMMISSION

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CIRCULAR

REF: PenCom/INSP/Surv/2024/1382

DATE: 11 July 2024

TO: All Licensed Pension Fund Operators

SUBJECT: CIRCULAR ON ASSET CROSSING BETWEEN PENSION FUNDS

1.0 The National Pension Commission (the Commission) has observed certain practices of crossing pension assets between funds by some Licensed Pension Fund Operators (LPFOs), without conducting prior impact analysis to ensure fairness, transparency, and compliance with extant laws. Accordingly, and in furtherance of the provision of Section 90(1) of the PRA 2014, the Commission has developed guidance on all asset transfers between funds, with the exception of interfund transfers pertaining to RSA Funds.

2.0 General Principles

2.1 The assets involved in the crossing arrangement must meet the eligibility criteria for pension fund investments as prescribed by applicable laws and regulations. This is to ensure that only qualified assets are considered, maintaining compliance with Investment Guidelines and protecting the interests of the pension fund beneficiaries.

2.2 In the event that an illiquid asset is involved in the transfer ("crossing"), a reasonable compensation, in the form of a liquidity premium, must be provided to the receiving fund. This compensation is intended to offset the reduced liquidity and potential risks associated with holding illiquid assets, ensuring equitable treatment and compliance with fiduciary standards. The liquidity premium, shall be computed by considering both the issue size and the term to maturity of the instruments.

3.0 General Responsibilities of the Pension Fund Administrator

3.1 The Pension Fund Administrator (PFA) shall perform comprehensive due diligence to ascertain that the asset to be transferred aligns with the risk appetite and holding capacity of the receiving fund. This evaluation must ensure compliance with the receiving fund's investment strategy and regulatory standards.

3.2 The PFA must present a compelling argument for the asset transfer, which will assist the Commission in making an informed decision. The justification must demonstrate that the transfer serves the best interest of the receiving fund and conforming to both fiduciary and regulatory obligations.

3.3 The PFA shall also provide a well-founded justification for the divestiture of the asset from the originating fund. The justification or rationale must include evidence of review by all relevant control departments to ensure strict adherence to regulatory requirements and governance standards throughout the transaction process.

3.4 The PFA must obtain explicit approval from the sponsor of the receiving fund when dealing with non-discretionary funds or schemes. This requirement is to ensure that all asset transfers align with the directives and objectives established by the fund sponsor.

3.5 The PFA shall seek and obtain a "no objection" from the Commission prior to executing the transfer of assets.

4.0 Specific Responsibilities of the Board of Directors of the Pension Fund Administrators

4.1 The Board of Directors of the PFA shall:

i. Formulate an asset transfer "crossing" policy for the Pension Fund Administrator (PFA) that is consistent with extant laws, regulations, and the internal policies of the PFA. The policy must ensure alignment with the objectives of this regulatory circular and the strategic goals of the PFA, promoting compliance, transparency and fiduciary responsibility.

ii. Assess the submission from the executive management of the PFA to verify its alignment with prevailing laws, regulations, and the internal policies of the PFA. This review process must ensure that the submission conforms to all statutory and organizational compliance requirements.

iii. Ensure that the request is not intended for the purposes of returns management, but aligns with the fiduciary responsibilities and strategic objectives of the fund.

iv. Deliberate on the request for the transfer of assets ("crossing") or any alternative proposals. This consideration must involve a thorough analysis of the potential impacts, ensuring that the transfer aligns with legal, regulatory and fiduciary standards and is in the best interest of all stakeholders involved.

4.2 Responsibilities of the Pension Fund Custodian

5.2.1 The Pension Fund Custodian (PFC) shall:

i. Ensure that only asset transfers ("crossings") that have received prior "No objection" from the Commission are executed.

ii. Promptly report any suspicious transactions to the Commission to ensure that they do not indicate "churning" or excessive trading, aimed at circumventing laws or generating commissions at the detriment of the fund's interests.

iii. Render comprehensive monthly report detailing all asset transfers ("crossings") to the Commission. This report must include information on each transaction to ensure ongoing regulatory oversight, transparency and alignment with compliance requirements.

4.3 Responsibilities of The Commission

4.3.1 The Commission Shall:

i. Review the Pension Fund Administrator's (PFA) request and issue a "no objection" decision or otherwise within 2 working days from the date of receipt of the request. This expedited response will ensure timely decision-making while maintaining compliance with regulatory standards.

ii. Continuously monitor and ensure adherence to the provisions of this circular and other statutory requirements governing fund operations. This includes implementing mechanisms to verify compliance and issuing directive on corrective actions as necessary in order to uphold regulatory and fiduciary standards.

5.0 Review

This Circular is subject to review by the Commission, from time to time.

6.0 Enquiries

All enquiries regarding this Circular should be directed to:

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