

GOVERNMENT OF ZAMBIA

STATUTORY INSTRUMENT NO. 50 OF 2021

The Pension Scheme Regulation Act
(Act No. 28 of 1996)**The Pension Scheme (Investment Guidelines)**
Regulations, 2021

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SCHEDULES

IN EXERCISE of the powers contained in sections 25 (3) and 46 of the Pension Scheme Regulations Act, the following Regulations are made:	Title
1. These Regulations may be cited as the Pension Scheme (Investment Guidelines) Regulations, 2021.	Interpretations
2. In these Regulations, unless the context otherwise requires	
“Authority” means the Pensions and Insurance Authority established under the Act;	
“bank” has the meaning assigned to the word in the Banking and Financial Services Act, 2017;	Act No. 7 of 2017
“cash equivalent” means short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value;	
“collective investment scheme” has the meaning assigned to the words in the Securities Act, 2016;	Act No. 41 of 2016
“corporate bond” means a debt instrument with a maturity date of more than twelve months, excluding a convertible debenture, however prescribed, issued by a company incorporated under the Companies Act, 2017, or other body corporate established by law;	Act No. 10 of 2017
“derivative” means a financial instrument whose price is based on the price of another underlying asset;	
“equity” means the shares of a company excluding shares in property companies, whether those shares are preferred or not, and including convertible debentures;	
“Exchange Traded Fund” means a marketable security that tracks a stock index, a commodity, bond, or a basket of assets;	
“fair value” means the price likely to be received on the sale of an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date;	
“financial institution” has the meaning assigned to the words in the Banking and Financial Services Act, 2017;	Act No. 7 of 2017
“fund size” means the total assets of a pension scheme;	
“Government securities” means securities issued by the Government of the Republic through the Bank of Zambia;	
“hedge fund” means an asset which uses any strategy or takes any position that could result in the portfolio incurring losses or gains greater than its fair value at any point in time, and which strategies or positions include leverage and net short positions;	

Act No. 41 of 2016	<p>“investment policy statement” means a document containing principles governing decisions on investment of scheme funds, a description of a scheme’s general investment philosophy and objectives as determined by the scheme’s liability profile and risk appetite;</p>
	<p>“listed company” has the meaning assigned to the words in the Securities Act, 2016;</p>
	<p>“manager” has the meaning assigned to the word in the Act;</p>
	<p>“passive investment fund” means a listed investment scheme that issues units or similar financial instruments to the investing public where the value of the units or financial instruments tracks or mirrors an established industry index;</p>
Act No. 27 of 1997	<p>“policy” has the meaning assigned to the word in the Insurance Act, 1997;</p>
	<p>“private equity” means an asset class consisting of equity securities in operating companies that are not publicly traded on a stock exchange;</p>
Act No. 41 of 2016	<p>“quoted entities” means entities whose securities are registered under the Securities Act, 2016 and have not been listed on any licensed securities exchange;</p>
	<p>“speculative investment” means a financial instrument that carries a high degree of risk whose profits are based on price fluctuations of the investment market value; and</p>
	<p>“supranational entity” means an entity which is collectively governed by member states and whose influence and power of member states transcend national boundaries.</p>
Application	<p>3. These Regulations apply to a pension scheme registered under the Act.</p>
Prudential investment management principles	<p>4. A pension scheme shall ensure that an investment of the pension scheme is based on the following principles:</p> <ul style="list-style-type: none"> (a) adoption of an investment policy statement that reflects the investment strategy of the pension scheme set out in the First Schedule; (b) considers the level of risks to be taken in aggregate to the liability structure of the fund; (c) maximises investment returns consistent with the risk assigned for each type of investment; (d) prudent and responsible investment of money for the benefit of scheme members; (e) mitigate risk by ensuring alignment of interest, where possible;

- (f) diversify investment portfolio while ensuring quality of investment and sufficient liquidity for the normal operations of the pension scheme;
- (g) compliance with investment limits set by the Authority and the Minister;
- (h) ability to pay pension benefits when they fall due;
- (i) monitoring and assessment of investment success in line with the investment policy statement on a regular basis; and
- (j) adherence to principles of good corporate governance and accepted accounting standards.

5. (1) A pension scheme shall not make an investment of more than twenty percent of the fund size in cash, bank balances and money market instruments with any one bank or financial institution, except for a pension scheme that has, from the date of registration, been in existence for a period of less than twelve months.

Restrictions
on cash and
cash
equivalents

(2) A pension scheme shall maintain an investment of not less than two and a half percent of its fund size in cash, bank balances and money market instruments.

6. A pension scheme shall maintain an investment of Government securities of not less than two and half percent of its fund size.

Government
securities

7. (1) A pension scheme shall, maintain an investment of not less than five percent, but not more than seventy percent of its fund size in listed and quoted equities, except for a pension scheme that has, from the date of registration, been in existence for a period of less than twelve months.

Investment
in listed and
quoted
entity

(2) The investment under subregulation (1) shall consist of—

- (a) not more than fifteen percent of the fund size where it is invested in the equities of the same company;
- (b) not more than ten percent of ownership of the share capital of any one company;
- (c) not more than ten percent of the fund size of the pension scheme where it is invested in a company that has been in existence for less than three years;
- (d) not more than fifteen percent of the fund size of the pension scheme where it is invested in private equity; and
- (e) not more than five percent of the fund size of a pension fund where it is invested in securities of a sponsoring employer where the sponsoring employer includes direct

	and successive subsidiaries and holding companies of the sponsoring employers, except that any secured loans of the sponsoring employer shall form part of this limit.
Collective investment scheme	8. A pension scheme shall invest not more than twenty percent of the fund size in a collective investment scheme.
Corporate bonds	9. A pension scheme shall maintain an investment of not more than ten percent of its fund size in corporate bonds of the same company.
Investing in property	10. (1) A pension scheme may invest not more than forty percent of the fund size in immovable property. (2) The investment under sub regulation (1) shall consist of direct or indirect investment, except that the direct investment shall not exceed thirty percent of the fund size. (3) The property referred to under sub- regulation (1) consists of— (a) claims secured by mortgage bonds; (b) units in collective investments schemes in property related financial instruments; or (c) share in, loans to, and debentures of property companies.
Investments outside Republic	11. (1) A pension scheme may invest not more than thirty percent of its fund size outside the Republic as may be authorised by the Minister under the Act. (2) A pension scheme shall not invest in property outside the Republic.
Insurance policy	12. A pension scheme shall not invest more than ten percent of fund size in an insurance policy with a registered insurer.
Supranational Bond	13. A pension scheme shall not invest more than thirty percent of its fund size in financial instruments issued by a supranational entity, except in instances where the Authority provides other specified limits following an assessment of the supranational entity.
Exemptions	14. (1) The Registrar may, on an application by a pension scheme, exempt the pension scheme from any of the provisions of these Regulations, subject to conditions that the Registrar may impose for purposes of the Act. (2) A pension scheme may apply for an exemption to the Authority in Form I set out in the Second Schedule. (3) The Registrar shall, within sixty days of receipt of an application under subregulation (2)— (i) grant the exemption applied for;

- (ii) make alternative recommendations; or
- (iii) refuse to grant the exemption, giving reasons for the refusal.
15. A person dissatisfied with the decision of the Registrar, may appeal to the Minister within thirty days of receipt of the decision. Appeal
16. (1) A pension scheme shall not invest in derivatives, hedge funds or any other speculative investments, except where a specific request is made for risk management purposes to the Registrar and approval is granted. Prohibitions
- (2) A pension scheme shall not, without the approval of the Registrar, directly or indirectly grant a loan to, or invest in, any debt instrument, shares of a company or its subsidiary, holding company or successive subsidiary or holding company controlled by a member or trustee of a fund or a director of a sponsoring employer of the fund and service providers.
17. A pension scheme may, with the approval of the Registrar, invest in other investments, which includes passive investments such as exchange traded funds for purposes of these Regulations. Other investments
18. (1) A trustee, manager, and custodian of a pension scheme shall develop and observe comprehensive policies and procedures to minimise instances of insider dealing and conflict of interest in all their operations. Conflict of interest
- (2) The policies referred to in subregulation (1) shall provide awareness on insider dealing and conflict of interest in areas such as investment approvals, contracts for works or employment, business relationships, professional services and competing business.
19. A pension scheme shall comply with these Regulations within a period of twelve months from the commencement of these Regulations or longer period that the Registrar may specify. Duration for compliance
20. The Pension Scheme (Investment Guidelines) Regulations, 2011, are revoked. Revocation of SI No. 141 of 2011

FIRST SCHEDULE

(Regulation 4)

INVESTMENT POLICY STATEMENT

Contents of
investment
policy
statement of
pension
scheme

1. (1) The trustees of a pension scheme shall cause to be prepared and maintained a written investment policy statement of the scheme in accordance with these Regulations.
- (2) The investment policy statement shall contain
 - (a) the investment objectives;
 - (b) the types of investments to be held by the pension scheme;
 - (c) the percentages of the total fair value of the assets of the pension scheme invested in accordance with the asset classes;
 - (d) the level of risk and volatility of returns which the Board of trustees considers appropriate in connection with the investments of the pension scheme;
 - (e) the desired level of liquidity for the pension scheme;
 - (f) the realisation of investments;
 - (g) asset liability matching;
 - (h) the desired investment outcome for the pension scheme;
 - (i) the performance benchmarks for the returns that the trustees seek to achieve;
 - (j) the diversification to be made within asset classes and between asset classes;
 - (k) any restrictions and prohibitions on investing in a particular asset class;
 - (l) any restrictions on the pension scheme holding investments in a single entity or group;
 - (m) any minimum liquidity standards for a particular category of investments;
 - (n) the criteria used to monitor and review the performance of the fund manager;
 - (o) the procedures adopted to monitor the investments of the pension scheme and actions taken accordingly;
 - (p) the procedures adopted to prepare or review the investment policy of the pension scheme;
 - (q) any factors which are peculiar to the pension scheme;
and
 - (r) any other matters as the Authority may determine.

(3) The investment policy statement of a pension scheme shall preclude the sponsor from determining investment decisions.

(4) The investment policy statement shall be signed by all the trustees of the pension scheme.

(5) A certified copy of the investment policy statement of the pension scheme shall be submitted to the Authority within fourteen days of its approval by the Board of Trustees.

2. The investment policy statement shall be prepared in a manner—

(a) that is capable of being clearly communicated to the members or prospective members of the pension scheme;

(b) in which the members or prospective members of the pension scheme are able to understand the objectives set for the fund manager and to reconcile these objectives with the overall investment policy statement set by the Board of Trustees; and

(c) in which the members or prospective members can understand the manner in which the investment performance and management of the pension scheme is measured.

3. (1) The investment policy of the pension scheme shall be reviewed at least once every three years, and submitted to the Authority within fourteen days of its approval by the Board of Trustees.

(2) Despite subregulation (1), the trustees may review the investment policy statement of the pension scheme where there is a material change to the pension scheme, an anticipation of a major change or where such change does not occur.

(3) Where the investment policy statement is amended in line with sub-regulation (2), the reviewed investment policy statement shall be submitted to the Authority within fourteen days of its approval by the Board of Trustees.

(4) For the purpose of subregulation (3), a material change to the pension scheme may result from—

(a) a significant change in the membership of the pension scheme;

(b) a significant change in the benefit structure;

(c) a significant change in the asset or liability values caused by market movements;

(d) the transfer or amalgamation of assets or liabilities between pension schemes; or

Preparation
of
investment
policy
statement

Review of
investment
policy
statement

- (e) a change in the actuarial valuation assumptions which results in a material change to the actuarial values of either the assets or the liabilities of the retirement benefits scheme.
- Circumstances to consider in preparing or reviewing a pension scheme's investment policy statement
4. The trustees of a pension scheme shall, in preparing or reviewing the pension scheme's investment policy statement take into account—
- (a) the professional advice of a qualified actuary or financial analyst; and
 - (b) all the circumstances of the pension scheme including
 - (i) the risk involved in making, holding and realising investments of the pension scheme;
 - (ii) the likely returns from the pension scheme's investments having regard to its objectives and its expected cash flow requirements;
 - (iii) the funding methods used in the pension scheme, including, in the case of a defined contribution pension scheme, any smoothing of investment returns accrued to individual member accounts and unitisation of pension schemes;
 - (iv) the composition of the pension scheme investments as a whole including the extent to which the investments are diverse or involve the pension scheme being exposed to risks from inadequate diversification;
 - (v) the liquidity of the pension scheme's investments having regard to its expected cash flow requirements;
 - (vi) the ability of the pension scheme to discharge its existing and prospective liabilities;
 - (vii) the membership profile of the pension scheme including the age distribution of the members;
 - (viii) the reasonable expectations of the members;
 - (ix) the nature and expected timing of the members' entitlements;
 - (x) the size of the pension scheme;
 - (xi) tax considerations affecting the scheme;
 - (xii) the likelihood of future support from employers, where appropriate;

- (xiii) any limitations and constraints on investments imposed by the Act, these Regulations, the trust deed or the pension scheme's rules;
- (xiv) any reports from experts or other qualified professional advisers;
- (xv) disclosure of any actual or potential conflict of interest involving the trustees, the fund manager or an associate of the trustee or the fund manager; and
- (xvi) disclosure of any benefit that will be derived as a result of the actual or potential placement of the investments of the scheme.

5. (1) An investment policy statement for a defined benefits scheme shall be prepared on the advice of a qualified actuary, in accordance with these Regulations.

Investment
policy
statement
of a defined
benefits
scheme

(2) A qualified actuary of a defined benefits scheme shall issue a written confirmation that the investment policy statement is consistent with the objectives of the pension scheme.

6. (1) A pension scheme shall ensure that an investment of the pension scheme is made in accordance with the pension scheme's investment policy statement under these Regulations.

Investment
of scheme
funds and
assets

(2) The trustees shall monitor the performance of the fund manager to ensure compliance with the pension scheme's investment policy statement.

(3) Where an investment of a pension scheme cease to be consistent with the pension scheme's investment policy statement, the fund manager shall as soon as possible but not later than three months, notify the trustees and the Authority.

SECOND SCHEDULE

Regulations 14

FORM 1

Regulations 14



REPUBLIC OF ZAMBIA

The Pension Scheme Regulation Act, 1996

(Act No. 28 of 1996)

**The Pension Scheme (Investment Guidelines)
Regulations, 2021**

APPLICATION FOR EXEMPTION

To: The Registrar:

1. Name of Pension Scheme

.....
 hereby applies for exemption

2. Particulars of Pension Scheme:

(a) Name of Pension Scheme:.....

(b) Board of Trustees:

No.	Designation	Full Names (CAPITAL LETTERS)	Occupation	Nationality	Residential Address	Contact No.	Date of Appointment
1.							
2.							
3.							
4.							
5.							
6.							
7.							

3. State reasons for applying for exemption —

.....

4. State the extent of exemptions or non-compliance with the Regulation as a proportion (Percentage) of the fund size—

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.....
.....

5. Indicate the proposed period of exemption—

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For official use (this Part to be returned to applicant)

The Registrar shall, within sixty days of receipt of the application indicate The decision of—

- (i) grant the exemption applied for;
- (ii) make alternative recommendations; or
- (iii) refuse to grant the application by giving reasons for such.

Comments:

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Signature: Date:
Registrar

DECLARATION

I/we declare that to the best of my knowledge and behalf, the information provided in this application is correct and complete.

Signed (by or on behalf of the Board of Trustee)

Name:

Date:

DR B. K. E NG'ANDU,
Minister of Finance

LUSAKA
12th May, 2021
[MF/EMD.101/39/1]

9/5/21

9/5/21