REPORT ON EFFECTIVE APPROACHES TO SUPPORT IMPLEMENTATION OF THE G20/OECD HIGH-LEVEL PRINCIPLES ON LONG-TERM INVESTMENT FINANCING BY INSTITUTIONAL INVESTORS

At the G20 Leaders Summit in St Petersburg in September 2013, G20 Leaders endorsed the High-Level Principles on Long-Term Investment Financing by Institutional Investors, thereby recognising the importance of establishing conditions that could promote the role institutional investors could play as sources of long-term investment financing. At the same time, G20 Leaders asked their Finance Ministers and Central Bank Governors to identify approaches to effectively implement the Principles, working with the OECD and other interested participants by the next Leaders' Summit, in November 2014 in Brisbane, Australia.

As agreed in the Prioritisation of Work to Inform Effective Implementation Approaches of G20/OECD High Level Principles on Long-term Investment Financing by Institutional Investors, the G20/OECD Task Force on Institutional Investors and Long-term Financing has developed the first set of Effective Approaches to support implementation of the High-Level Principles, covering Principles 3, 5 and 7 in their entirety and selected sub-principles of Principles 1 and 2.

This document contains the final version of the Effective Approaches as agreed by the G20/OECD Task Force on Institutional Investors and Long-term Financing on 9th September 2014. The Task Force is open to OECD, G20, FSB, APEC members and includes several other international organisations.

The Report on Effective Approaches reflect input provided by Members of the Task Force, OECD bodies (Committee on Financial Markets, Insurance and Private Pensions Committee), international organisations (IMF, World Bank, FSB, various standard-setting bodies), and the European Commission. The report and a companion Annex were supported by the G20 Finance Ministers and Central Bank Governors at their meeting on 20-21 September 2014. The reports are now submitted to the G20 Leaders for their consideration.

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G20/OECD TASK FORCE ON INSTITUTIONAL INVESTORS AND LONG-TERM FINANCING

REPORT ON EFFECTIVE APPROACHES TO SUPPORT IMPLEMENTATION OF THE G20/OECD HIGH LEVEL PRINCIPLES ON LONG-TERM INVESTMENT FINANCING BY INSTITUTIONAL INVESTORS

Introduction:

At the G20 Leaders Summit in St Petersburg in September 2013, G20 Leaders endorsed the High-Level Principles on Long-Term Investment Financing by Institutional Investors, thereby recognising the importance of establishing conditions that could promote the role institutional investors could play as sources of long-term investment financing. At the same time, G20 Leaders asked their Finance Ministers and Central Bank Governors to identify approaches to effectively implement the Principles, working with the OECD and other interested participants by the next Leaders' Summit, in November 2014 in Brisbane, Australia.

The G20/OECD High Level Principles on Long-Term Investment Financing by Institutional Investors (the "High Level Principles" or "Principles") are designed to assist OECD, G20 and any other interested jurisdictions to facilitate and promote long-term investment by institutional investors. The High-Level Principles are intended to complement and do not substitute for any existing international principles and/or guidelines that may apply to particular categories of investors. Rather, they seek to foster consistency in approaches for long-term investment across different policies and jurisdictions.

In order to develop implementation approaches for the Principles, the G20/OECD Task Force on Institutional Investors and Long-Term Financing (the "Task Force") decided to prioritise those Principles which members viewed as most important to focus on in the first instance to enable the Task Force, the OECD and G20 membership and other interested participants to utilise their resources effectively. The Task Force decided in this context to focus its work initially on a few of the principles that relate most closely to G20 priorities for investment and require delivery in 2014 to achieve outcomes by the September G20 Finance Ministers and Central Bank Governors Meeting, and the subsequent November Leaders Summit. They include the following Principles and sub-principles:

- Principle 1: *Preconditions for long-term investments*. In particular sub-principle 1.1 on the consistency of policies promoting long-term investment with the best interests of the relevant stakeholders, security, diversification, etc., and sub-principle 1.5 on business regulation and supervision.

- Principle 2: *Development of institutional investors and long-term savings*

- Principle 3: *Governance of institutional investors, remuneration and asset management delegation*, noting in particular the need as identified in sub-principle 3.2 for the governing body of institutional investor to have adequate skills to design, assess, monitor and review its investment strategy.

- Principle 4: *Financial regulation, valuation and tax treatment*. In particular, sub-principle 4.1 on the consistency of the financial regulatory framework with the particular risk characteristics and investment horizons of institutional investors

- Principle 5: *Financing vehicles and support for long-term investment and collaboration among institutional investors*; and

- Principle 7: *Information sharing and disclosure*.

This document presents a summary of effective approaches to support the implementation of the High Level Principles 1, 2, 3, 5 and 7. The information provided herein reflects the responses of Task Force members to survey questions for each of the priority principles, which provided concrete examples of regulatory and supervisory approaches to support the principles in question. This information was complemented in some cases by factual information obtained through informal consultations with key stakeholders and further supported by the discussion of the issues held during the Sixth, Seventh and Eighth meetings of the Task Force, on 4 March 2014, 3 June 2014 and 9 September 2014, as well as by detailed written comments from Task Force Members. The final version of the report was endorsed by the Members of the Task Force on 9 September 2014.

Effective Approaches

The effective approaches identified in the report are not exhaustive, but they do reflect a range of considerations highlighted in the responses to the survey of Task Force members and the subsequent consultations.

The effective approaches identified herein are illustrative and non-binding. They are intended as examples to assist regulators, supervisors, policy makers, institutional investors and other relevant stakeholders in facilitating the provision of financing to long-term investments, while taking account of the requirements of prudence, other responsibilities towards members, beneficiaries, investors and policyholders, and government financing constraints. The effective approaches also take into account different jurisdictional circumstances and are of relevance to different types of institutional investors, including collective investment schemes, insurance companies, pension funds, and sovereign wealth funds, institutions which might be expected to have an interest in long-term investment projects. It should be noted, however, that for these purposes there is no common definition of long-term investment to be applied in all circumstances.

In this report, the term **underlying assumptions** refers to statements, ideas or concepts that have been identified by the Task Force as providing further clarity or explanation to the High-Level Principle in question.

The measures identified as **common effective approaches** are regulatory, supervisory and industry-based measures and practices that have been widely endorsed or adopted in a number of jurisdictions and are considered to effectively implement key aspects of the Principle. They are taken in most cases from the members' survey or from existing measures agreed at international level, such as those developed by international standard setting bodies.

Additional measures identified as "**innovative**" or "**emerging**" **effective approaches** are also included. They are regulatory, supervisory, or industry-based measures and practices that, while not in widespread use, in some cases being limited to only a few jurisdictions, are nonetheless deemed worthy of further consideration or interest as alternative ways of effectively implementing the principle. Innovative approaches are ones that undertake a different, alternative or new approach to an issue, while emerging approaches entail the adoption or the specific use of a certain approach as a consequence of a new or emerging challenge. Both sets of approaches take into account specific national circumstances, but may prove useful for others engaged in an effort to facilitate long-term investment financing by institutional investors.

The main body of the report is organised by High-Level Principle with numbered paragraphs. The numbering enables the reader to link an effective approach with the detailed information provided in country-specific regulatory and supervisory measures as outlined in a companion Annex. The paragraph ordering is not intended otherwise to indicate any particular rank ordering or hierarchy of significance across the effective approaches.

PRINCIPLES 1.1 AND 1.5

Preconditions for long-term investments

1.1 Governments[1] should put in place framework conditions that are favourable to long-term investment financing. When evaluating policies to promote long-term investment by institutional investors, policymakers should ensure its consistency with the best interest of members, investors, beneficiaries, policyholders and other relevant stakeholders, and consider its wider potential public impact. In particular, long-term investment can help achieve broader policy goals such as financial stability, debt sustainability, job creation, inclusive growth, higher living standards, competitiveness, sustainable economic development and green growth.

1.5 A favourable business and investment climate and the consistent and effective enforcement of the rule of law are essential for long-term investment. Governments should create predictable, stable, transparent, fair and reliable business regulation and supervision and administrative and procurement procedures. In particular, policies should consider the long-term financing needs of new firms and small and medium-sized companies. They should also promote an effective framework for fair competition and sound corporate governance, and clear and reliable creditor rights and insolvency regimes.

Underlying assumptions

1. At a general level, various transactions and information infrastructure are needed to support financial activities and the entire process is influenced by the legal and regulatory system, supervision, tax laws, societal and industry norms and other environmental factors.

2. Relevant factors exist in 1) the macroeconomic environment, 2) the financial environment, 3) the entrepreneurial and broader business environment, and 4) at the level of individual investors and investment projects – the microeconomic environment.

3. A key challenge for policymakers is to put in place a policy mix that avoids macroeconomic imbalances and financial sector vulnerabilities that can thwart the growth process.

4. Investors are willing to commit their funds to investments only when they have some assurance that financial markets and institutions are safe and sound, and operate according to rules and procedures that are fair, transparent, and free from conflicts of interest and other agency problems.

5. Investment integrity requires proper and transparent choice, but within the limits of the diversification paradigm and with adequate regulation, disclosure, accountability and better financial education and training to facilitate proper risk assessment. Institutions will be reluctant to invest if risks are not clearly understood and rewards are not adequate, a determination which can only be made confidently if relevant risk factors are transparently communicated to allow them to be properly assessed and priced.

6. Long-term investments can be particularly challenging, given the longer time horizons over which agency problems and related weaknesses can materialise, the greater uncertainty regarding investment returns, the particular illiquidity of long-term investments, including a lack of both transparency and the data needed to understand the risks of direct investments and alternative financing vehicles used for certain

[1] Government is defined broadly, including all competent authorities at international, national and sub-national level.

types of long-term investments, insufficient investor capacity to manage longer-term assets, and potential problems with investment conditions and market infrastructure.

7. Some institutional investors have the in-house asset management capability and the wherewithal, give the size of their balance sheets, to take on the term and other risks associated with infrastructure and other long-term investments, but nonetheless have relatively limited allocations to the asset class.

8. Investment is in part held back in structural terms by inability or unwillingness on the part of investors to undertake real investment and factors that reduce the returns to investors. These include restrictive product market regulations that reduce the ability of firms to undertake new activities or to enter new markets, especially across borders.

9. For infrastructure investment, specific problems relate to planning and limited capacity to prepare and execute projects successfully. Other impediments to infrastructure investments may include the lack of robust rule of law and attractiveness of the regulatory environment. In addition, the absence of a successful track record of related projects can also be an impediment.

10. The ability of the governing body of an institutional investor to form an investment strategy that generates good long-term returns while operating within reasonable risk bounds is a critical element in serving any member's best interests.

11. Prudent investing on the part of institutional investors gives appropriate consideration to any factor which may materially affect the sustainable long-term performance of its assets, including factors of an environmental, social, and governance character.

Key themes:

Establishing framework conditions that are favourable for long-term investment:

Effective approaches

Common

12. Governments ensure that the proper framework conditions are in place to support long-term investment financing by institutional investors. Such conditions include a stable macroeconomic environment, responsible fiscal management, a strong financial sector, and a well-developed system of channelling public and private savings to longer-term investments.

13. Governments carefully evaluate new regulatory proposals, including by engaging and dialoguing with all relevant stakeholders via direct consultations, investor forums, and written comment periods with a view to ensuring effective rulemaking and avoiding ad hoc and frequent changes in the regulatory regime.

14. Governments support long-term investment by ensuring efficient market functioning, through adequate regulation and supervision, transparency from all actors along the investment chain and an appropriate degree of investor protection.

15. Governments take steps to ensure there are no unnecessary restrictions on the range of long-term government and market financial instruments.

Creditor rights and insolvency regimes

Effective approaches

Common

16. Governments regularly review the general policy framework that governs corporate insolvency, ensuring the establishment of efficient procedures for the winding up of companies, the orderly realisation of the available assets of those companies and the equitable distribution of the proceeds to creditors and shareholders under liquidation, while providing for reorganisation of companies in financial distress but still viable.

17. Governments take steps as needed to improve the legislation rules applicable to firms facing financial difficulties, including by enhancing the attractiveness of agreement procedures, establishing better balance for the interests of creditors in insolvency procedures, and simplifying and accelerating insolvency procedures, particularly for small businesses.

18. Governments take steps to ensure that the insolvency framework provides creditors with a range of opportunities to receive information and monitor the progress of an insolvency administration in which they have an interest.

Business regulation and administrative and procurement procedures:

Effective approaches

Common

19. Governments adopt measures that help to create a supportive business environment, by reducing administrative burdens and simplifying bureaucratic procedures to the extent feasible, increasing the quality of contract enforcement, and preventing and fighting corruption in order to provide a good climate for private sector investment.

20. Governments review business regulation, administrative and procurement procedures, and supervision on a regular basis in the context of maintaining regulatory efficiency and effectiveness, while avoiding ad-hoc and frequent changes.

21. Governments ensure that all procurement projects strive to achieve the most favourable relation between the objective being pursued and the resources utilised.

22. Governments take steps to ensure openness and transparency in the procurement process, including by establishing councils and holding round tables with the private sector before and after making policy; using public disclosure by relevant ministries and institutions; and communicating pertinent information online or via specified media, and using open tender as the main instrument of procurement.

23. Governments adopt a non-discriminatory procurement framework that treats products and services from foreign-owned entities equally with those from domestic enterprises.

Innovative/emerging

24. A case-by-case approach is used for each individual procurement project, characterized by increasing levels of scrutiny of their overall societal cost/benefit and various financing options, as an alternative to a

possible strategy of developing an infrastructure project pipeline to promote long-term investment by institutional investors.

25. Governments may establish a Chief Procurement Officer or similar official to manage and maintain the regulatory environment relevant to government procurement practices, including government transversal contracts, so that cost savings and socio-economic objectives are achieved.

Fair competition and sound corporate governance

Effective approaches

Common

26. Governments take steps to ensure a sound corporate governance framework, which aims to facilitate effective and appropriate monitoring and control and to promote proper incentives for boards and management to act in good faith and in the interests of their companies and shareholders and to exercise their powers with due care.

27. Governments use a combination of state laws, administrative laws, and departmental rules, along with the self-regulatory rules of equity exchanges and related organised markets to ensure proper functioning of the framework for corporate governance.

28. Competition authorities take steps to prevent abuses of dominant positions, which help to ensure proper working of competitive market forces and to protect the interests of consumers of products as well as business prospects of smaller and medium-sized firms.

29. Governments adopt measures incentivising or mandating institutional investors to fulfil their stewardship responsibilities by acting to improve and foster increased corporate value and sustainable growth of investee companies, through constructive engagement or purposeful dialogue, with due regard to their clients and beneficiaries and to investee companies.

30. Governments impose measures that govern related party transactions and other business matters for listed and widely held companies, which strengthen procedural and disclosure requirements, including by mandating review by independent directors to ensure the transactions in question are fair for all shareholders.

Innovative/emerging

31. Steps are taken to better align long-term interests of institutional investors, asset managers, companies and shareholders, thereby incentivising the latter to become more long-term engaged investors, which helps to improve overall corporate governance.

32. Measures are introduced, which while requiring companies to comply with the corporate governance provisions of general corporate law, may also allow them to follow the recommendations of a ‘reference governance code’, in which case companies are required to disclose which code they choose to follow and whether or not their governance practices are consistent with that code.

33. In light of the increasing ownership of shares by institutional investors, governments may take steps to strengthen the ability of outside directors, shareholders and other stakeholders to monitor the behavior of company insiders including management.

Best interests of members, investors, beneficiaries, policyholders and other stakeholders

Effective approaches

Common

34. Governments help to ensure the alignment of interests of the diverse stakeholders in an institutional investor via proper design of the regulatory framework and its enforcement via ongoing monitoring and surveillance processes.

35. Administrators of institutional investors have a fiduciary duty to members, beneficiaries and other relevant stakeholders to act in their best interests, including by adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk-adjusted returns suitable for the institution's specific member profile, liquidity needs and liabilities, and by appropriate transparency and reporting on financial indicators as well as environmental, social and governance-related key topics.

36. The governing body of an institutional investor is subject to a "prudent person" standard, which obliges it to exercise an appropriate degree of care, diligence and skill that a prudent person engaged in the same profession would exercise under the same circumstances.

37. Governments help to promote long-term investment and ensure proper alignment of interests via ongoing and intense interaction between regulators on the one hand and all the other relevant stakeholders on the other, including via roundtables, expert hearings/opinions, or informal requests and exchanges of views.

Innovative/emerging

38. Governments may establish a "code for responsible investing", which gives institutional investors guidance on how they may execute investment analysis, conduct investment activities, and exercise ownership rights so as to promote sound governance. As such, the "code" may contain sustainability considerations, acceptance of responsibilities of ownership, awareness and avoidance of potential conflicts of interest situations, transparency about policies, and where appropriate, a collaborative approach to promoting acceptance and implementation applicable codes and standards. Such a code may serve as a minimum reference point for the institutional investor and should not be deemed to preclude higher standards of behaviour.

39. Governments assign different definitions of fiduciary duties to different categories of institutional investors, according to the nature of the investors' liabilities and contractual obligations.

Long-term financing needs of small and medium-sized enterprises

Effective approaches

Common

40. Governments put in place a flexible regulatory regime governing institutional investors, which helps to facilitate their investment in funds specifically geared toward lending to small and medium-sized enterprises.

41. Governments take steps to broaden both the investor and issuer base in the securities markets to ensure that small firms at every stage of the financial ladder can obtain access to the most suitable financial instruments, including by eliminating the equity gap in early stages of business development via

amendments to listing rules and reduced administrative costs and informational burdens associated with listing, while promoting market efficiency and preserving consumer protection rights.

42. Governments take steps to expand the range of financial instruments available for small business in order to broaden the financing channel for small and medium-sized enterprises, including bonds issued by financial institutions with proceeds earmarked lending to small businesses and private placement bonds and project bonds for small and medium-sized enterprises.

43. Governments establish national development banks to provide financing, venture capital and consulting services to small businesses, including innovative companies and start-ups.

44. Governments offer a range of tailored assistance measures, such as expert advice, training programs, consulting, certifications, design, innovation, technology transfer, and equipment as well as funding to help small businesses take products, processes and services to market.

45. Governments provide guarantees on loans extended by financial institutions to small businesses, subject to appropriate mechanisms to ensure adequate risk sharing and avoid moral hazard.

46. Governments offer preferential tax rates for small businesses, enabling them to retain more earnings for reinvestment and growth.

Innovative/emerging

47. Governments may establish an investment fund to provide government funding for investment to licensed fund managers, which is matched with capital raised from the private sector and then used to invest in innovative start-ups commercialising research and development.

48. To increase foreign investment in the venture capital sector and stimulate the early stage venture capital sector governments may establish special vehicles to provide tax concessions for registered venture capital funds that make equity investments in relatively high-risk start-ups and expanding companies.

49. Governments may offer an exemption on capital gains on qualified small business shares to bolster investment and risk-taking by investors in small businesses.

50. The legal framework governing commercial paper can be simplified to facilitate small and medium-sized enterprise issuance of commercial paper-backed instruments.

Assessing the contribution of long-term investment to broader public policy goals

Effective approaches

Common

51. Governments ensure that all appropriate steps are taken to assess the wider impact of long-term investment on broader public policy goals.

52. Governments evaluate the effectiveness of policies to promote long-term investment by institutional investors on a case-by-case basis.

53. Governments eliminate regulations that unduly hinder project delivery and private participation in long-term investment financing.

54. Governments monitor and assess the design and use of long-term financing instruments as well as the sector structures of long-term investors in view of the allocation and distribution of risks in different sectors.

55. In determining which types of projects to pursue or how to undertake them, governments take into account the expected contribution of long-term investment to broader public policy goals.

Innovative/emerging

56. To evaluate the policies to promote long-term investment financing by institutional investors governments can establish a Task Team to meet individually with each institution (government officials together with key institutional investor associations) via in-depth interviews and gather and carefully synthesise the information to produce a synopsis of the main impediments faced by the industry, with a view to establishing which are most urgent to address and the relative benefits of doing so.

57. The assessment of the impact of long-term investment on the attainment of other public policy goals is made on a project-by-project basis. Additionally, the macro-economic assessment of the investment decision process takes into account, within a global perspective, the achievement of these public policy goals.

PRINCIPLE 2

Development of institutional investors and long-term savings

2.2 Governments should promote the development of long-term savings through savings mobilisation policies. Such policies may consider the use of default mechanisms such as automatic enrolment as well as, where appropriate, mandatory arrangements. When relevant and subject to the macroeconomic situation, appropriate financial incentives to long-term saving should be provided and tax impediments removed. Governments should also promote the development of long-term savings through pooled investment vehicles and collectively organised long-term savings and retirement plans, increased awareness amongst the population, financial inclusion policies, and the promotion of financial literacy.

Underlying assumptions

58. Savings and investments by individuals are important both for personal financial well-being and for economic growth. Many governments seek to encourage their citizens to save more, or to save more appropriately, by opting for formal institutions to encourage saving rather than relying on informal savings arrangements and by promoting diversification and other sound investment principles.

59. There are various ways in which individuals save ranging from holding surplus income as cash, through simple informal saving mechanisms such as savings and loan clubs, to complex investments, or non-financial saving such as property or livestock. Some of these approaches are more suited to short-term savings and income smoothing, whilst others provide long-term savings to draw on in future periods.

60. There may be considerable barriers to saving for some segments of the population, which may include limited access to financial markets by some groups, excessive complexity of financial products, and information asymmetries. Knowledge and understanding of saving and investment concepts may also be low among some members of the general population in many countries. In addition, there can be behavioural and cultural factors which may limit individuals' propensity to save.

61. As a consequence, policy makers have developed several strategies to influence whether and how individuals save. Policy responses typically involve a combination of prudential regulation and consumer protection legislation, financial and tax incentives, financial education and awareness initiatives, as well as behavioural techniques to lead people into sound saving decisions.

Key themes:

Savings mobilisation policies: financial incentives, tax incentives

Effective approaches

Common

62. To encourage employee participation in occupational retirement plans employers are required to make contributions on behalf of their employees.

63. Governments offer tax concessions on contributions to retirement savings plans to encourage individuals to save for their retirement.

64. Governments offer tax concessions on the earnings on funds invested in retirement savings plans to encourage individuals to save for the long term.

65. Governments help to mobilise savings by issuing policies and guidelines to stimulate the development of long-term savings insurance products.

66. Governments adopt measures to strengthen long-term savings and prevent any leakages in the system, including via pre-retirement capital preservation, auto-enrolment as the default option, and tax harmonisation of deductions for different retirement products.

Innovative/emerging

67. Governments encourage the self-employed to save for their retirement by allowing them to claim a full deduction for their retirement savings contributions up to a designated cut-off age, which can be greater than the typical retirement age.

68. Governments offer pooled pension plans to provide a low-cost and large-scale retirement savings option for individuals who do not have access to a workplace pension plan.

69. Governments facilitate comparisons across providers of long-term savings products through requirements for standardised calculations and reporting of fees and costs, while ensuring that investors and asset managers are able to invest these funds in a long term [and sustainable] perspective.

Savings mobilisation policies: financial inclusion policies

Effective approaches

Common

70. Governments develop a national strategy to help disadvantaged and/or vulnerable members of the population overcome financial exclusion and build savings and assets, as well as improve their financial literacy. Such programs may be delivered with the assistance of community/non-government organisations.

71. Governments focus financial inclusion policies on ensuring access to basic banking services, especially banking accounts and simple saving accounts.

72. Governments support financial inclusion by promoting financial education, which contributes to the financial inclusion of the most disadvantaged social groups, such as the unemployed, low-income families, immigrants.

73. Governments take steps to assess how the population uses financial services as a means of measuring financial inclusion, in part by gathering and improving the quality of data and indicators for the measurement and monitoring of financial inclusion.

74. Governments establish a national agreement on the approach to financial inclusion among service providers, government, organized labour and civil society, which specifies detailed targets on a range of financial inclusion issues such as access, products and product usage and financial literacy.

Innovative/emerging

75. The right to a banking account is enshrined in law.

76. Mutual guarantee schemes may be used in lieu of explicit government support as a tool to promote financial inclusion of small and medium-sized enterprises in credit markets.

Savings mobilisation policies: promoting financial literacy and increased awareness of the need to save for the long term

Effective approaches

Common

77. The business community, government and education sectors all take an interest in developing, implementing, or supporting financial literacy initiatives, with the government playing a coordinating role.

78. Government priorities for financial literacy include a number of main elements, including educating the next generation, particularly through the formal education system; increasing the use of free, impartial information, tools and resources; providing quality targeted guidance and support; strengthening co-ordination and effective partnerships; and improving research, measurement and evaluation.

79. Government information programmes for financial education address the main banking issues, including savings, saving for retirement, credit, insurance and remittances, mortgage lending, current accounts, and also cover pension issues.

80. Governments develop a comprehensive approach to financial consumer protection which includes financial education as one of its main pillars. The core elements of this pillar include providing a framework for collaboration and co-ordination of financial sector stakeholders in consumer financial education; providing data and measurement of financial education programmes and determining whether policy, strategy and programme objectives are being achieved; and helping to improve consumers' financial well-being by improving their financial literacy in the dimensions of financial control, financial planning, product choice and financial knowledge, so that they better understand financial management and thus take good decisions that are tailored to their personal circumstances.

81. Governments use a variety of media to communicate relevant information to the public on managing their savings, including television, web-based, radio and print advertising.

82. Governments develop a national strategy for financial education that encourages the inclusion of the subject in public and private schools in order to increase awareness early on of the need to save for the long term.

83. Governments undertake national surveys to ascertain whether the population is becoming more financial aware and knowledgeable of savings for retirement purposes.

Innovative/emerging

84. Governments can hold each year a financial literacy publicity month to improve citizens' understanding of and access to financial knowledge.

85. Governments can create a financial literacy portal, which addresses the basic concepts associated with the most frequent financial decisions consumers face and serves as a platform for the support and dissemination of related policy initiatives.

86. Governments develop a personal finance website that contains useful information and interactive tools to help consumers understand their retirement savings plan and the need to save for the long term.

87. Governments publish a variety of plain-language brochures and tip sheets on banking services, credit cards, mortgages and consumer rights.

88. Governments can appoint a “financial literacy leader” (an individual or group of persons), whose mandate is to collaborate and coordinate activities with stakeholders to contribute to and support initiatives that strengthen the financial literacy of the population.

PRINCIPLE 3

Governance of institutional investors, remuneration and asset management delegation

3.1 The governing body of an institutional investor should ensure that the investment strategy of the institution takes into account the profile and duration of its liabilities and follows a prudent approach.

3.2 The governing body of an institutional investor should collectively have adequate skills to design, assess, monitor, and review its investment strategy, including the allocation to long-term assets. Where necessary, it should seek appropriate independent advice and training.

3.3. The governing body of an institutional investor should ensure that the investment management personnel and any external asset managers have the necessary capability to implement the investment strategy and manage those investments in line with the institution's objectives. If outsourcing to external asset managers, the governing body has the duty to ensure that the investment decisions are in line with its objectives.

3.4 The governing body of an institutional investor should ensure that the institution can properly identify, measure, monitor, and manage the risks associated with long-term assets as well as any long-term risks – including environmental, social and governance risks - that may affect their portfolios.

3.5 The governing body of an institutional investor should ensure that conflicts of interest that may affect their decisions and those of the persons or entities involved in the management of investments, including any long-term assets, are identified and adequately addressed.

3.6 The governing body of an institutional investor should observe its fiduciary duties towards the ultimate owners or beneficiaries of the assets they oversee. Such duties, when applicable, should include the prudent and efficient management of any long-term assets and the informed and effective use of their investor rights, including shareholder and creditor rights. Those persons and entities involved in the management of the assets of institutional investors should act in consistency with those fiduciary duties or their associated contractual obligations.

3.7 The governing body of an institutional investor should regularly monitor the performance of both external and internal fund managers. Performance should be evaluated over a period of years, taking into account the institution's investment horizon, its asset-liability management objectives and the level of risk implied. Performance-based elements and contract clauses of fund managers' and senior executives' remuneration should be based on long-term, risk-return criteria.

3.8 Regulatory and supervisory authorities overseeing institutional investors and other actors within the investment management chain should monitor the governance, agency relationships, remuneration, and risk management mechanisms underpinning long-term investment and take prompt and adequate measures when relevant. They should, where appropriate, provide guidance to institutional investors regarding the governance and risk management requirements to meet long-term investment objectives.

Underlying Assumptions

89. Governance frameworks for institutional investors generally have certain basic components in common, although the specifics vary across jurisdictions and across types of institutional investors. The common components include:

- well-defined legal and regulatory environments, including official supervisory oversight in cases of contractual funding obligations,

- accepted standards of behaviour with specific responsibilities assigned to certain designated parties (*e.g.* actuaries, trustees, depositories, etc.),

- internal compliance functions,

- rules on disclosure,

- general consumer protection regulations and market discipline

- strict licensing requirements up-front, accompanied by specific solvency and technical requirements, accounting requirements and investment regulations

90. The institutional and legal framework tends to vary across different types of institutional investors, in part, because the types of assets they manage, the management of their liabilities, and where relevant the factors affecting their solvency are generally not the same. Further, many institutional investors operate under fiduciary mandates, but the nature of the mandates, including their existence, need not be the same across the different types of institutional investors.

91. A basic distinction can be drawn between arrangements that require the sponsor of a particular institutional investment product to provide a specific return or flow of payments to investors or beneficiaries and those that do not. Some institutional investment products, such as standard life insurance contracts, fixed annuities or defined benefit pension schemes, create a contractual obligation on the part of the sponsor to make specific payments. In this case the sponsor assumes all the investment risks of generating sufficient income from the invested assets to assure the contractual payments.

92. Particularly in cases where the sponsor of the institutional investment product has a contractual obligation to produce a fixed payment or a specified flow of payments for the beneficiary and, thus, a potential risk of solvency problems, the prudential supervisory regime plays a key role in shaping the governance of supervised institutional investors.

93. With other types of institutional investor products (e.g. defined contribution pension plans, variable annuities and all virtually all collective investment schemes), the institution merely agrees to invest the assets on behalf of the beneficiary and does not, in principle, have a commitment to pay the investor a specific return, so there may be little supervision to control the risk being assumed or to ensure the institutional investor's solvency as the risk is borne by the final beneficiary. Such entities may nonetheless still be covered under broader macroeconomic stability oversight to ensure their operations are in accord with accepted norms.

94. The nature of the liabilities of the different types of institutional investors is a key determinant of their behaviour, including their investment activities.

95. All institutional investors gather assets and deploy those assets to achieve their designated investment objective. Among the main objectives of an institutional investor are to (1) earn an adequate return on funds invested and where applicable (2) to maintain a comfortable surplus of assets beyond liabilities. However, against the backdrop of different legal and regulatory frameworks, fiduciary mandates and tax status (and the institutions' own risk preferences), different types of institutional investors generally have different specific investment objectives.

96. The assets held by institutional investors may be managed in-house, externally, or through some combination of the two approaches. Larger institutional investors typically have in-house asset management teams, but it is becoming more common, especially among smaller institutional investors, for at least a share of the funds they control to be delegated to professional fund managers, who develop asset allocation strategies and make investment decisions on behalf of their institutional investor clients.

97. Some categories of institutional investors operate under special tax regimes. In many cases, the tax status of these instruments is more favourable than if the equivalent amount of savings were simply held in the form of a banking or securities account. Usually, the favourable tax status is accorded in exchange for the investor's or beneficiary's agreement to defer use of the savings for a certain period of time and then to use the savings for a specified purpose such as for retirement income.

98. In all cases, a pool of assets is identified and separated. The assets must be held separately from those of all affiliated persons, companies and institutions. These assets are to be invested in the interest of the final beneficiaries (i.e. insurance policy holders, pension plan beneficiaries and investors in collective investment schemes.) The risks that the institutional investor and its beneficiaries face are not solely related to deviations from market benchmarks.

99. Most forms of institutional saving also carry a non-trivial risk of agency problems. A major concern is the risk that the funds accumulated in institutional form will be used for some purpose other than the best interests of the final beneficiaries. The risk is high in some cases because savings are held for long periods of time, which might obscure any misuse of funds, at least in the near term.

Key themes

Governance Structure: Investment strategy

Effective Approaches

Common

100. The governing body sets out the institutional investor's key goals or mission, identifies the main risks, and lays out the main policies, including the investment policy or the strategic asset allocation, the remuneration policy, the funding policy, and the risk management policy.

101. The governing body of an institutional investor abides by an overall investment policy that establishes clear investment objectives for the institution.

102. The governing body of an institutional investor ensures that the investment objectives adopted are consistent with the stated objectives of the entity and therefore with the characteristics of its liabilities and with an accepted degree of risk for the institution and its members, beneficiaries, investors and other relevant stakeholders.

103. The governing body of an institutional investor should employ the necessary "prudence" in its investment activities such that the investment of assets managed on behalf of beneficiaries, policyholders, or investors is undertaken with care, expert skills, and due diligence, as in adherence to a "prudent person" standard.

104. In order to ensure accountability, the governing body of an institutional investor is required to be legally liable for any of its actions which fail to be consistent with the obligations imposed on it, including prudence.

105. There are established procedures and criteria by which the governing body of an institutional investor or other responsible party periodically reviews the effectiveness of the investment policy and determines whether there is a need to modify or change the policy, the implementation procedures, or the decision-making structure, including the responsibilities linked to the design of the strategy or its implementation

Governing body: Suitability requirements

Effective Approaches

Common

106. Members of the governing body of institutional investors and staff engaged in financial and risk control are required to be of sound character and good repute and have the necessary judgment, appropriate authority, leadership, independence and prudence to provide sound, strategic direction to the institution and perform effective oversight.

107. Members of the governing body collectively have the requisite financial, accounting, actuarial, management and leadership expertise, and skills to provide direction for and oversee the institutional investor.

108. The governing body of the institutional investor is required to have the necessary skills to design, assess, monitor, and review its investment strategy to ensure consistency with the institution's stated objectives.

109. Members of the governing body are subject to minimum suitability standards, such as “fit and proper” criteria, or non-suitability standards, such as fraud or criminal convictions, in order to ensure a high level of integrity, competence, experience and professionalism in the governance of the institutional investor.

110. Where relevant, the governing body is required to seek to enhance its knowledge, including via appropriate training.

Governing body: delegation and expert advice

Effective Approaches

Common

111. The governing body of an institutional investor is required to establish a rigorous policy by which investment activities are conducted.

112. The institutional framework for institutional investors embodies external providers of particular services necessary for proper management of risks.

113. To ensure independence external providers are chosen following procedures which ensure the selection of independent and skilled persons, taking into account experience, knowledge and qualifications, but respecting the applicable “fit and proper” criteria.

114. When outsourcing investment mandates to external service providers, the governing body of an institutional investor retains responsibility for monitoring and oversight of such providers.

Governance Mechanisms: Risk-based internal controls

Effective Approaches

Common

115. Institutional investors are required to have adequate internal controls in place to ensure that all persons and entities with operational and oversight responsibilities act in accordance with the objectives set out in the institution's by-laws, statutes, contract, or trust instrument, or in documents associated with any of these, and that they comply with the law.

116. The internal controls of an institutional investor cover all basic organisational and administrative procedures, depending upon the scale and complexity of the investment portfolio, and include performance assessment, compensation mechanisms, information systems and processes, risk management procedures and compliance.

117. Depending upon the scale and complexity of the investment portfolio, staff engaged in financial and risk control are independent, have appropriate authority, and their compensation is determined in a manner that is independent of the business areas they oversee.

118. The governing body of an institutional investor ensures that a sound risk-management process is established that measures and seeks to appropriately control portfolio risks and to manage the assets and liabilities in a coherent and integrated manner consistent with its stated objectives, including effective internal audits and regular assessment of regulatory compliance systems, where relevant.

119. Market intermediaries are required to establish an internal function that delivers compliance with standards for internal organization and operational conduct, with the aim of protecting the interests of clients and their assets and ensuring proper management of risk, through which management of the intermediary accepts primary responsibility for these matters.

120. While both long-term risks and short-term risks are important, the institutional investor incentivises its internal and external managers to put appropriate weight on long-term risk factors in order to manage risks which are relevant to the institutional investor's long-term investment horizon and its fiduciary duties, including systemic risk.

121. The institutional investor monitors the turnover of its portfolio by the external asset manager and controls excessive turnover.

122. Institutional investors effectively integrate environmental, social and governance factors into investment decision making and ongoing management.

Infrastructure for minimising conflicts of interest

Effective Approaches

Common

123. Institutional investors are required to keep a functional separation between those staff responsible for investments and those responsible for settlement and bookkeeping.

124. Conflicts of interest regulations prohibit governing body members from engaging in self-dealing and require them also to address potential conflicts of interest among their internal staff.

125. Conflicts of interest rules may also be included in a code of conduct by which all governing body members and operational staff must abide.

126. The governing body of an institutional investor ensures that policies and procedures are in place to identify, monitor and resolve actual or potential conflicts of interest facing members of the governing body, management, and other stakeholders.

127. Mechanisms to sanction the improper use of privileged information are implemented as part of an overall policy on managing conflicts of interest.

Governing body: Fiduciary responsibilities

Effective Approaches

Common

128. Where applicable, rules and procedures are in place to ensure that any vested benefits and rights of members, beneficiaries, or investors in an institutional investor are protected from the creditors and service providers of its sponsor at a minimum by the legal separation of the assets.

129. Where necessary to fulfil contractual obligations or to ensure adequate protection of members, beneficiaries, or investors, the governing body of an institutional investor is subject to a fiduciary duty to these parties which requires the governing body and other appropriate parties to act in the best interests of the members, beneficiaries or investors as regards the investment and management of assets, which

includes the management of any investor rights pertaining thereto, and to exercise due diligence in the investment process.

130. Laws and regulations specify that the assets can be used only for the purposes outlined in the institutional savings product. Laws and regulations governing institutional investors generally require that relevant assets are invested in the interests of the final beneficiaries (i.e. insurance policy holders, pension plan beneficiaries and investors in CIS).

131. The governing body regularly assesses the financial condition, risk profile and, where appropriate, solvency position of the institution, including capital, borrowing and liquidity needs.

132. Relevant information about the institutional investor is properly disclosed to its members, beneficiaries, investors and other stakeholders as needed for them to have an informed and timely view of their holdings, positions, or investments. Such information may include assets and performance, rights of access, investment policy and other elements.

133. Due consideration is given to adequate forms of delivery of disclosure materials.

Performance management

Effective Approaches

Common

134. Regular assessment is made of the performance of the persons and entities involved in the operation and oversight of the institutional investor, particularly where the governing body is also a commercial institution.

135. The governing body of an institutional investor oversees, monitors, and reviews the institution's compensation practices and ensures that compensation works in harmony with other practices to implement balanced risk postures.

136. The governing body of an institutional investor selects, compensates, monitors, and, where necessary replaces internal executive staff as well as external service providers (e.g. asset managers, actuaries, custodians, auditors, etc.); in a two-tier board system, the appointment of external service providers (e.g. actuaries, auditors) may be the responsibility of the supervisory board.

137. The government body of an institutional investor fully aligns the interests of their fund managers with their own obligations to beneficiaries by setting out their expectations in fund management contracts to ensure that the responsibilities of ownership are appropriately and fully delivered in their interests. This includes ensuring that the timescales over which investment risk and opportunity are considered match those of the client and aligning interests effectively through appropriate fees and pay structures

138. The governing body establishes for its members, and for management staff and employees compensation arrangements that promote prudent behaviour consistent with the institution's long-term interests and fair conduct toward end-investors and stakeholders, and customers as appropriate.

139. Compensation arrangements are designed to promote long-term, firm-wide profitability, be adjusted for all types of risks and symmetric with outcomes, reflect the time horizon of liabilities and discourage excessive short-term risk taking.

140. The risk management and internal control system considers any risks arising from compensation arrangements and incentive structures.

141. Compensation payout schedules are required to be sensitive to the time horizon of risks.

142. An employee's compensation takes account of the risks that the employee takes on behalf of the institution. Compensation policies take into consideration prospective risks as well as risk outcomes that are already realised and check that the risks taken by the employee are consistent with the institution's long-term objectives.

143. Where appropriate, the evaluation of the performance of the external asset manager takes long-term absolute performance into account as opposed to performance relative to a benchmark index or other asset managers pursuing similar investment strategies.

Legal, regulatory and supervisory framework

Effective Approaches

Common

144. Legal frameworks provide mandates for specific regulatory/supervisory authorities/agencies with responsibilities, powers, and rules to oversee, monitor compliance and undertake enforcement on activities of institutional investors, including ensuring solvency in cases where the institutional investor has a contractual obligation to provide a specific return to investors, beneficiaries, or policyholders or is subject to other fiduciary obligations.

145. Relevant legal provisions empower supervisory authorities or oversight bodies of institutional investors to conduct a full investigation when a problem is suspected or observed and to take necessary corrective measures and remedial actions as need be.

146. Relevant legal provisions clearly define the main duties of the governing body of institutional investors, focusing on key, strategic decisions and functions such as the choice of investment policy, the selection and monitoring of the fund‘s key executive staff and external service providers, and the monitoring of the institution‘s performance.

147. Supervisory authorities of institutional investors take a risk-based approach to oversight, allocating resources and attention to target institutions and activities which pose the highest risks to achieving the core objectives of supervision.

148. Relevant legal provisions require institutional investors to disclose their use of credit ratings in risk assessment processes and their compensation practices so that investors and other stakeholders are able to evaluate the quality of internal credit assessments, monitor agency relationships and remuneration and the quality of support for the firm's strategy and risk posture.

PRINCIPLE 5

Financing vehicles and support for long-term investment and collaboration among institutional investors

5.1 Public intervention in long-term investment projects - selected in light of socio-economic and environmental impact assessments - should be decided on the basis of identified market failures, should avoid crowding-out private investments, and should be selected by carrying out appropriate cost-benefit analysis of such interventions and ensuring that any public support is appropriately priced and is subject to fiscal considerations.

5.2 Governments may consider providing risk mitigation to long-term investments projects where it would result in more appropriate allocation of risks and their associated returns. Such risk mitigation mechanisms may include credit and revenue guarantees, first-loss provisions, public subsidies, and the provision of bridge financing via direct loans.

5.3 Governments should establish the necessary regulatory framework for pooled investment vehicles and securities channelling financing for long-term investment in a sound and sustainable manner.

5.4 In markets with limited participation by institutional investors, governments, national development banks, and multilateral development agencies should consider the need for establishing and promoting pooled vehicles for long-term investment, and supporting other instruments for long-term investment such as project bonds or securitised assets, and risk mitigation policies. Such financing vehicles should have an investment horizon in line with those of the underlying projects and should be developed in close cooperation with institutional investors.

5.5 Governments should establish a policy environment to address any market failures which inhibit long-term investment by institutional investors in start-up firms with a high growth potential, and more generally in small and medium-sized companies. They should consider mechanisms to facilitate the provision of seed capital to such firms and their access to appropriate financing, utilising competitive processes and private sector expertise. They should also consider establishing suitable financing vehicles for such firms, where appropriate.

5.6 Collaborative actions and resource sharing amongst institutional investors and with other financial institutions should be encouraged and supported in order to facilitate the exchange of expertise, ensure the effective exercise of ownership rights and to allow sufficient scale and diversification to be reached for investment in large, long-term projects.

Underlying assumptions

149. Governments have a potential role to play in fostering long-term investment by improving the efficiency of the use of resources as well as by the direct use of funds. But government project support should be done only in circumstances that clearly require it.

150. Given the constraints on government budgets and the considerable need for long-term investment now and in the future, it is essential that governments partner with the private sector to meet some of these needs.

151. The expected return and risk of investment projects is a core consideration in the effort to attract private financing. Government intervention may be needed in some circumstances, where the rate of return may be insufficient to compensate private sector investors for the perceived level and/or character of risk or to address key market failures that significantly impede the supply of funds.

152. Various financial tools exist to mitigate the risks of long-term investment projects and help leverage private investment, including direct public financing, whereby public funds are used to buy down risk, or through provision of public guarantees or related insurance-like instruments.

153. But the provision of risk mitigation is not universal. Some governments do not offer risk mitigation as a matter of public policy, given the risks entailed, which can include potential price and competitive distortions as well as rising contingent liabilities and other budgetary problems. This approach is not inconsistent with the basic thrust of the Principle.

154. In many countries, the availability of financing for small and medium-sized enterprises is more limited than for larger companies and loan maturities are generally shorter, which affects the ability of small and medium-sized enterprises to make long-term investments. Information problems and related market failures may be particularly relevant for certain categories of small and medium-sized enterprises, such as start-ups or firms engaged in the uptake of new technologies.

155. High up-front costs, lack of liquidity and long asset life of infrastructure and other long-term investment projects require significant scale and dedicated resources on the part of investors, both to understand the risks and to manage them.

156. Institutional investors, given their sizable asset portfolios and their traditional role as sources of long-term capital, are increasingly looked upon as alternative sources of long-term financing, in particular in light of the tightening liquidity and capital constraints being placed on the banking sector. However, there can be barriers to the participation of institutional investors in financing long-term investment projects. These may vary by size and type of investor and at what stage of the value chain in which they are most likely to participate.

Key themes:

Public intervention in long-term investment projects

Effective approaches

Common

157. Governments make long-term commitments to building roads, bridges, commuter rail and other non-transport related public infrastructure assets that promote productivity and economic growth, including schools and hospitals, as a way of ensuring predictability and flexibility for authorities at local level to deliver large infrastructure projects efficiently.

158. Governments take into account a wide range of economic factors in deciding whether to commit to developing infrastructure projects, including the scale of fiscal resources which could be used for long-term investment; overall economic and social development planning, along with regional and local

planning; investment demand for public infrastructure; regional differences in economic development; and the overall macroeconomic situation.

159. A national institution may be established to provide independent advice to government, investors, infrastructure owners and the public on current and future economic infrastructure needs; mechanisms for financing infrastructure investments; and policy, pricing and regulation and their impacts on investment, and on the efficiency of the delivery, operation and use of national infrastructure networks.

160. Governments explicitly acknowledge that the success rate of an infrastructure project is highly correlated with the legal and institutional settings for economic evaluation and decision making by making ex-ante socio-economic evaluation compulsory for public investment projects.

161. Governments make decisions regarding the nature and extent of public intervention on a case-by-case basis, with the existence of market failure providing a central argument in favour of public intervention, as in the case of "public goods" (i.e. large externalities, non-rivalry, natural monopoly, and non-excludability).

162. Governments take steps towards the systematic use of value-for-money analysis and the enhancement of the transparency of infrastructure projects.

163. Governments ensure that public-private partnership projects have robust structures and are economically and financially viable, in particular, through exhibiting both economic and financial positive internal rates of returns. In this context, the returns to the private investor should be commensurate with the risks that investor takes.

164. Multilateral development agencies provide advice and expertise in helping governments create a pipeline of projects, including standardization of contracts, structuring of public-private partnerships, etc.

165. Governments take into account distributional and equity objectives and effective methods of delivery (e.g. in-kind provision versus income support or other target measures) in considering public intervention in long-term projects.

166. Governments make decisions on how to allocate grant funding to sub-national jurisdictions such as states, municipalities and territories based on the expected costs and benefits of the proposed infrastructure project and broader, national policy objectives, such as projects' strategic fit in national networks in order to enhance national productivity and unlock regional economic growth potential.

Innovative/emerging

167. Governments may establish a working body to support and regulate public-private partnership projects, including by verifying that the public-private partnership format provides operational, legal and financial advantages in comparison to traditional procurement.

168. Governments may develop a national infrastructure programme, which may include a comprehensive infrastructure development strategy based on clearly established guiding principles, such as sustainable urban development, balanced regional development and intermodal connectivity across regions.

169. Governments establish guidelines for evaluating potential long-term investment projects, entailing *ex-ante* evaluation of needs and services, *ex-ante* evaluation of proposed works and selection of the works, followed by *ex-post* evaluation.

170. Governments may adopt an ‘inverted bid model‘, whereby the traditional bidding process is reversed by first having the terms of project financing fixed through a funding competition prior to the construction, operation and maintenance tender and raising of any additional debt. In effect, government tenders initially for the long-term owner-operator followed by separate bids for construction, operation and maintenance and residual debt.

171. Governments may require public-private partnership screening for government funding for projects in excess of a certain minimum, which can help overcome status quo bias where public-private partnerships haven’t had widespread adoption.

Risk mitigation mechanisms to support long-term investments

Effective approaches

Common

172. Where appropriate and consistent with broader policy, governments offer risk mitigation to support private sector participation in long-term investment projects, but on a case-by-case basis, according to market best practices and appropriate asset and liability management and subject to cost-benefit analysis guidelines.

173. Governments may use public financing mechanisms to provide cover for risks that are new to investors and cannot be covered in existing markets. Such mechanisms may include loan guarantees, insurance-related options, and credit enhancement tools to improve flow of financing to projects.

174. Multilateral development agencies support the effort to incentivise private participation frontier markets using their presence, due diligence and expertise to encourage other institutional investors to partner with them and follow their lead.

175. Governments consider providing risk mitigation to long-term investments projects where it would result in more appropriate allocation of risks and their associated returns. Such risk mitigation mechanisms may include credit and revenue guarantees, first-loss provisions, public subsidies, and the provision of bridge financing via direct loans, subject to cost-benefit considerations.

176. Multilateral development agencies facilitate risk mitigation, by providing coverage for government-related, sovereign risks, as well as for specific operational risks including regulatory changes and currency exposure.

177. Governments may use debt assumption commitments to cover both construction and post-construction phases of infrastructure projects, while investment guarantees are provided during the post-construction period.

178. Governments may, where appropriate, support infrastructure development through the use of contract design mechanisms to mitigate risks, such as turnkey contracts, put-or-pay agreements, or operation and maintenance agreements.

179. Governments may in circumstances where there is no conflict with broader public policy provide incentives/subsidies during the operational phase of infrastructure development aimed at increasing the cash flow performance of the infrastructure project to attract private investors. Such measures may include:

- revenue increase/revenue stabilisation or cost reduction and may include feed-in tariffs,

- the provision of a floor protection against a drop in traffic volumes in the transportation sector,
- minimum rental payments in students' accommodation/social housing projects,
- availability-based payments in the schooling/social housing/hospital sectors, contributions to debt service,
- or any form of tax relief that reduces the tax burden of the infrastructure project and increases the return to private investors.

Financial and non-financial instruments to support long-term investment

Effective approaches

Common

180. Governments establish a harmonised set of product rules for funds that specialise in long-term investing.

181. Governments implement a regulatory regime that is stable over the longer term.

182. Governments consider establishing guidelines for proper investment policy for institutional investors, requiring them to document the investment strategy adopted, specifying the types of instruments in which they intend to invest and their relative risk and return profiles.

183. Governments examine ways to improve information on infrastructure investment plans and projects of national, regional and local authorities to attract private sector financing.

184. Governments remove impediments in the tax system that may discourage private sector investment in infrastructure, but without sacrificing fiscal prudence and the broader goal of neutrality of the tax system.

185. Governments take steps to leverage private capital in long-term investment projects, including where relevant through such measures as liquidity facilities for foreign exchange risks, co-investments, provision of seed capital, use of grants and tax loss incentives for designated infrastructure projects or special tax credits.

186. Governments take steps to improve incentives to long-term investments through facilitating capital market activity and providing a regulatory environment that – committed to the supremacy of prudential principles – lifts confidence and encourages better investment portfolio management and increased contributions of institutional investors to financing of small and medium-sized enterprises.

187. Governments take steps to strengthen infrastructure investment by improving the competitive environment, including by reforming the administrative and court procedures for antitrust violations and the enforcement of cartel law.

Innovative/emerging

188. Governments may implement an "asset recycling initiative" to provide incentive payments to state and other sub-national governments to sell their state-owned assets and reinvest the proceeds into economic infrastructure.

Pooled investment vehicles, government-linked vehicles, and securitised assets

Effective approaches

Common

189. Governments establish a comprehensive legal framework for the regulation of pooled investment vehicles, which includes governance and disclosure arrangements and requirements for governing bodies.

190. Governments take steps to ensure the cost and operational efficiency of the investment process, which is necessary for the success of collaboration arrangements.

191. Governments may provide concessional tax treatment for pooled investment vehicles, which may include a lower withholding rate for distributions to non-resident investors and access to rules which provide greater certainty and simplicity in relation to the tax treatment of certain types of transactions and interests.

192. Governments establish a framework to provide for the issuance of capital market instruments to support long-term investment financing, which may include infrastructure asset-backed securities and project bonds.

193. Governments establish long-term investment funds to invest in longer term assets, often in relation to retirement savings.

194. Governments establish national development banks to support economic development through support to infrastructure and other longer term assets, and to housing and real estate, urban renewal, universities and the knowledge economy, public infrastructures, digital technologies, renewable energies, and small and medium-sized enterprises.

195. Government-sponsored development banks use a range of instruments to achieve their objectives, including contributions, grants, contingent grants, senior debt, subordinated loans, debt guarantees, and contingent subordinated debt.

196. Governments take steps to maintain proper functioning of competitive market forces, including with regard to the activities of national development agencies.

197. Long-term investment funds may be established which only invest in businesses that need money to be committed to them for long periods of time.

Innovative/emerging

198. A sector specific forum, composed by the regulator, companies, academics and market representatives may be established to identify issues of relevance and possible solutions for financing and sustainability of sectors such as infrastructure and small and medium-sized enterprises.

199. Governments may support private sector initiatives to use pooled securitisation vehicles to issue negotiable debt securities and bonds backed by loans to small and medium-sized enterprises, consistent with financial stability.

200. Lease certificates may be issued, whereby funds collected from investors are directly paid to the contractor to create a specific work and at the end of or during the term, the revenue acquired from the

sale/rent of this completed work is transferred to investors. The instrument can be used during the construction phase as well as post construction.

201. Governments consider ways to increase or harmonise the comparability of data on small firms across borders to facilitate credit scoring, securitisation, or other means of increasing financing for small and medium-sized enterprises.

202. Governments may offer a special tax incentive to real estate investment companies investing in infrastructure projects.

Collaborative actions and resource sharing

Effective approaches

Common

203. Governments take steps to support collaboration and resource sharing amongst institutional investors, enabling them to co-invest in large projects, with other institutions both domestic and international.

204. Governments support data collection and resource sharing on infrastructure debt and equity to facilitate more efficient channelling of private resources to projects.

205. Governments organise domestic and international summits and events with the key objective of exchanging ideas and experiences among institutional investors in order to develop best practices for corporate governance, pooling, long-term vehicles, investment policies and other issues relevant to the provision of long-term financing by institutional investors.

206. Governments use training activities, seminars and workshops to support collaborative actions and knowledge sharing amongst institutional investors.

PRINCIPLE 7

Information sharing and disclosure

7.1 Information sharing on long-term investments should be promoted at both the national and international level subject to cost and efficiency considerations. Data collection and information sharing can facilitate monitoring by supervisors, enhance the knowledge of institutional investors, reduce information asymmetries and improve the functioning and liquidity of markets.

7.2 Governments and international organisations should evaluate the need for promoting further research and the establishment of an international information platform accessible to investors that would provide comparative information on existing or foreseen long-term investment projects and their financing needs.

7.3 Where appropriate, institutional investors should disclose with sufficient granularity information on the extent to which their investment strategies are in line with their investment horizon and how they address long-term risks.

7.4 Institutional investors should be encouraged to report their recent allocation to and performance of different long-term assets following standardised classifications and methods, while ensuring the confidentiality of any market-sensitive or proprietary information. The reporting should have an appropriate frequency and should include performance measures calculated over sufficiently long periods. Such information should be at least available for members, policyholders and other beneficiaries as well as supervisory authorities. To fulfil those reporting requirements, adequate existing reporting sources should be used as far as possible.

Underlying assumptions

207. Surveys on the factors impeding the allocation of private financing to infrastructure projects and other long-term investments often cite a lack of clarity on investment opportunities available in the market, including a lack of transparency in the infrastructure sector.

208. Data should be reported on assets, flows, and performance of institutional investors and the extent to which the institutions' investment activities conform to their stated investment objectives.

209. Much available information is on an aggregated basis; granular data exists in supervisory reporting but is not always accessible by the general public.

210. Some of the information collected can be shared on a cross-border basis, but not all, and there are not always specific cross-border information-sharing mechanisms in place.

Key themes:

Data collection and information sharing

Effective approaches

Common

211. Governments promote national information sharing on major, publicly announced long-term investments through a variety of mechanisms, including online sources.

212. At sectoral level, regulatory authorities collect detailed information on institutional investors' investment allocations for supervisory purposes.

213. At the national level, governments compile aggregate information on institutional investors' investments, which are published through the national financial accounts.

214. Governments share aggregated non-confidential information on institutional investors' long-term investments with international organizations and standard-setters through standardized reporting templates.

215. Governments may adopt standardized data templates in order to promote cross-country comparability of data.

216. Data collected on long-term investments are subject to a cost-benefit assessment whereby the estimated costs of the reporting agents are compared with the expected usefulness of the information for data users. Measures exist to ensure information sharing meets the requirements of efficiency and effectiveness, including planning and control measures, internal auditing, expenditure controls, operational risk and business continuity management. Such measures may be matched by similar controls at regional level.

217. Information sharing is subject to data protection laws to protect proprietary information and personal data and ensure citizens' rights to privacy.

Innovative/emerging

218. A public investment registry may be established to encourage strategic planning or investment, in part by detailing all infrastructure projects that may require federal government resources.

219. Where comparable project-level or sufficiently granular data do not exist to facilitate cross-border comparisons of infrastructure projects across jurisdictions, governments may wish to support efforts at international level to compile and make available comparable data to address the data gap.

Financial reporting and disclosure

Effective approaches

Common

220. Supervisory authorities require licensed entities to report asset allocation information on both broad asset classes as well as more detailed information on asset types within those asset classes, with the latter providing necessary information for each investment vehicle to facilitate understanding not only the

vehicles being used to implement an investment strategy, but also the investment risks to which the licensed entity is exposed.

221. Supervisory authorities collect data items on asset allocation and investment performance at both the level of the licensed entity itself and at the sub-entity level, broken down by asset class, listing, and domicile.

222. Supervisory authorities obtain line-by-line reports on investments of each regulated entity at least on a quarterly basis, while some entities may be required to report more frequently.

Cross-border data sharing arrangements

Effective approaches

Common

223. Governments share non-confidential information on institutional investors on a cross-border basis with international organisations and end-users.

224. Reporting requirements for pension funds, investment funds and investment companies cover relevant information including investment strategies and benchmark information to enable participants/investors to compare fund performance and establish benchmark returns.