

QUALIFICATION STANDARDS FOR INSTITUTIONAL INVESTMENT MANAGERS

Raising the bar for the education and qualification of decision makers in institutional investment management in Brazil

Recent market developments in Brazil, including changes in the regulatory framework, enhance the debate around crucial issues for institutional clients. Qualification and certification of managers and members of investment committees for Retirement Plans is a key issue.

BACKGROUND AND POLICY DEVELOPMENTS

- Brazil's regulated open-end funds assets currently amount to some US\$750 billion; Retirement Plan assets in Brazil are approximately USD 175 billion, corresponding to 23% of the industry's total.
- The regulatory framework plays a crucial role in assuring the enforcement of best practices. In the U.S., focus is placed on major principles such as the trustee's duties to manage funds prudently, to exercise reasonable care, and to diversify using skill and caution in making and impartially implementing investment decisions.
- Establishing a sustainable governance model, grounded on sound risk management, independency, and a clear separation between Board members and a highly qualified staff is a major challenge for local pension funds.
- The acceptance of the CFA designation is gaining traction in Latin America. Since 2015, the Peruvian *Superintendencia del Mercado de Valores* (SMV) acknowledges the approval in CFA Program's Level I as sufficient qualification for local pension funds professionals.
- In April 2015, Brazil's *Conselho Nacional de Previdência Complementar* issued instructions regarding certification requirements for pension funds' managers. Early in 2016, PREVIC (*Superintendência Nacional de Previdência Complementar*) initiated a public hearing to gather contributions for the improvement of that matter.

CFA SOCIETY BRAZIL ACTIONS

- In December 2015, CFASB's Advocacy Committee offered suggestions to PREVIC, including establishing qualification standards for pension fund managers, in the context of the revision of Brazil's *Conselho Monetário Nacional* Resolution no. 3,792, which regulates pension funds.
- Organization for Economic Cooperation and Development. *OECD Guidelines on Pension Fund Governance*. Found at www.oecd.org/pensions/private-pensions/34799965.pdf
- KPMG Research. *Evolving Investment Management Regulation 2015: Navigating Opposing Forces*. Found on www.kpmg.com
- The Greenwich Roundtable. *Best Governance Practices for Investment Committees*. Found on www.greenwichroundtable.org

CFA SOCIETY BRAZIL VIEWPOINT

- Qualification and certification are key elements in raising industry standards. We recommend that any certification (i) be comprehensive, reaching the highest number of market participants; and (ii) have a solid and relevant conceptual content. Ethics and professional standards of conduct, suitable investment analysis, investment risk management, and legal framework are essential topics for the qualification of managers of pension schemes.
- Training for investment analysis must necessarily include, but should not limit itself to, strategic asset allocation, asset-liability management, Modern Portfolio Theory, interest rate and yield curve analysis, immunization and cash-flow matching, estimation of the equity risk premium, multiples analysis, and discounted cash flow modelling.
- Any certification program should also qualify professionals to implement an Enterprise Risk Management approach. It should include the use of a variety of metrics and methods such as Value at Risk, Monte Carlo simulation, and stress testing, among others.
- Behavioral finance has been a significantly growing topic tackling problems such as "common sense syndrome" and "task vs. planning" orientation in investment committees. It must be included in the curriculum of any certification program.
- Quality of tools used for performance evaluation and benchmarks are also to be considered. We strongly recommend GIPS as a criterion for quantifying and presenting performance information, mitigating investment performance "cherry picking" (see www.gipsstandards.org).