COMPARED REGULATIONS SERIES

PENSION FUNDS:
CAPITAL, SOLVENCY AND RESERVE REQUIREMENTS IN THE NEW INDIVIDUALLY FUNDED PROGRAMS[1]

Santiago, October 2011

[1] Prepared by the adviser Rodrigo Acuña, for the International Federation of Pension Fund Administrators (FIAP).

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Executive Summary

The rules and regulations of the different individually funded systems require capital and reserves for setting up and operating pension fund managers. These depend on each particular country, but in general they are fixed amounts in national legal tender (adjustable) or in international currencies, and the reserves, or cash reserves, are equivalent to certain percentages of the managed funds. The document focuses on analyzing these requirements for the accumulation stage, and does not consider the reserves that are in some cases required for guaranteeing the benefits of the decumulation phase.

The capital and equity requirements expressed as a fixed amount range from US $ 0.1 million in Ukraine to US$ 7.3 million in Poland[2]. In several countries, this amount depends on the number of members of the pension fund. Some examples are Chile and El Salvador, where equity requirements increase up to a certain number of members. The same occurs in the Dominican Republic, with the difference that in this case there is no ceiling for the equity requirement.

Some countries differentiate between the requirements for setting up a fund manager and those in force once it is operating. In the majority of Eastern European countries, the equity of the fund managers must drop to a predetermined percentage of the initial required capital (between 20% and 50%). In Costa Rica the capital and equity requirements are linked to the operating, solvency and market risks of the pension funds.

In certain countries the minimum capital requirement also depends on the scope of the fund manager's activities; it is not subject to the same restrictions in all of them. For example, in Colombia, the minimum capital required for managing pension funds is US$ 3.6 million, and US$ 1.8 million for unemployment funds; hence, a fund manager participating in both markets must have a total capital of US$ 5.4 million. There is a different situation in Kazakhstan, where the rules and regulations require a minimum capital of US$ 1.7 million for open funds and US$ 0.7 million for corporate funds. If the fund managers wish to perform investments directly, they must also obtain a license, for which the requirements are US$ 3.4 million and US$ 2.0 million for open and corporate funds, respectively.

Finally, there are countries that impose capital requirements depending on the size of the managed fund. In Ukraine, the value of the managed assets cannot be more than 50 times the capital of the asset manager, whereas in Colombia the value of the managed assets cannot be more than 48 times the technical equity, which means that such equity cannot be less than 2.1% of the assets. Another specific aspect in Colombia is that a maximum capital is established which cannot be more than ten times the minimum, in order to avoid economic concentration. In Curacao, the minimum capital of the insurance companies must be equivalent to 4% of the managed resources, with a minimum of US$ 0.3 million. In Uruguay, on the other hand, the equity of the operating fund managers must be the

[2] In general, the exchange rate in force on April 26, 2011, was used for converting to US dollars.

higher value between US$ 1.6 million and 2% of the fund, with a ceiling of US$ 4.0 million, whereas in El Salvador, it must be at least 3% of the value of the funds, but with a ceiling of US$ 10 million.

The majority of countries (except for Bolivia, Costa Rica, Kazakhstan, Panama and Romania) require fund managers to keep reserves or cash reserves, financed with their own resources, varying from 0.25% of the funds in El Salvador to a maximum of 2% in Uruguay, 3% in Bulgaria and 5% in Curacao. Nonetheless, it is important to note that in the latter country the requirement is applicable to the pension funds, which are endowments (and apparently the reserve is established with resources from the funds themselves), and not to insurance companies.

In general, the purpose of the reserves, or cash reserves, is to obtain a certain minimum profitability established in the rules and regulations and to cover damages and capital losses due to non-compliance with the investment regulations by the fund managers.

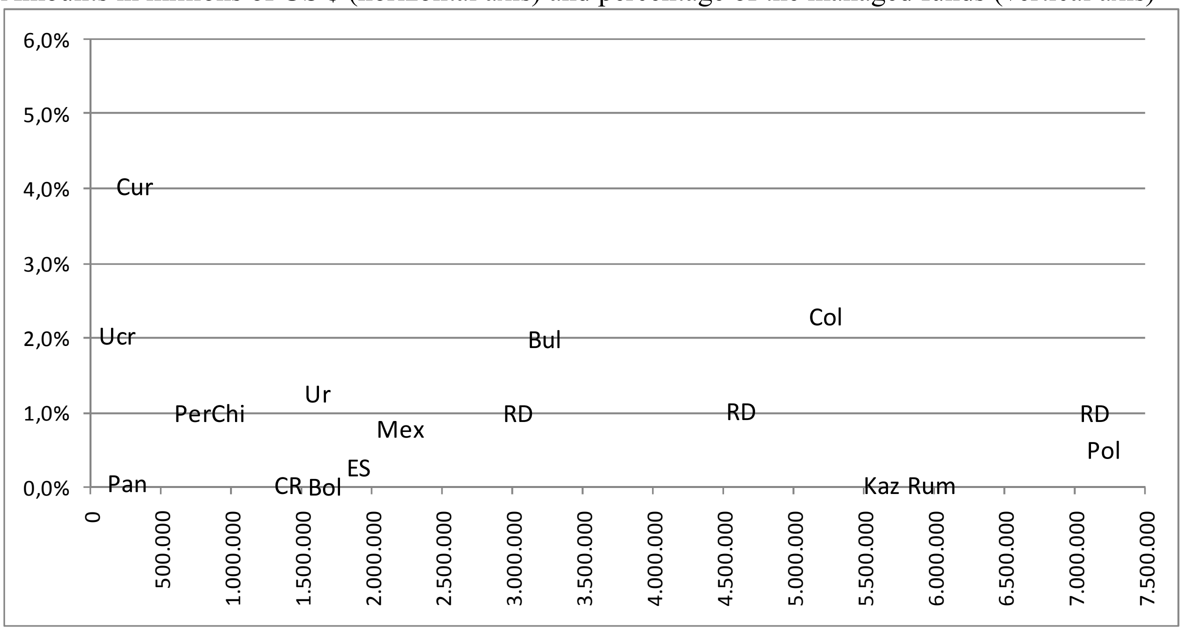
Six of the sixteen countries analyzed do not require the fund managers to obtain minimum profitability (Bolivia, Costa Rica, Curacao, Kazakhstan, Mexico and Panama). In five of the remaining nine countries that do enforce this requirement, minimum profitability is a relative benchmark, in other words, it is measured solely against the average profitability of the pension funds (Bulgaria, Chile, El Salvador, Poland and the Dominican Republic). Reference portfolios applicable to each one of the funds are used in Peru, and in Colombia the profitability of the funds is considered, in addition to a reference component, which could comprise a reference portfolio, market indices, or a combination of both. There are also requirements for obtaining absolute minimum profitability since in Romania the nominal profitability during the accumulation phase must be higher than 0% and a guarantee of profitability in relation to the market is also required. In Uruguay, on the other hand, the profitability guarantee is the lesser value between 2% real annual profitability and the real annual average profitability of the system, minus two percentage points.

In some individually funded programs, the rules and regulations require other guarantees in addition to those described above. In Colombia the fund managers must contribute to the Financial Institution Guarantee Fund which ensures the reimbursement of pension resources in case of the dissolution or liquidation of the fund manager. In Peru, the regulations require the constitution of a bank guarantee of not less than 0.5% of the managed portfolio, minus the cash reserve, guaranteeing minimum profitability and possible losses caused to the fund due to non-compliance with obligations, willful misconduct or negligence. In Poland, a Premium Account equivalent to 0.005% of the fund is set up, constituted with the resources of the funds themselves; it can be withdrawn by the fund managers that have shown good profitability performance and achieved yields higher than inflation in the last seventy-two months. In Uruguay and the Dominican Republic, a profitability fluctuation reserve is set up with the excess yield obtained by the fund managers over and above a certain threshold stipulated in the regulations, which can subsequently be used for complementing profitability when it falls short of the required minimum.

The following charts and graph show a schematic summary of the requirements in the different countries.

Capital, Equity and Reserve Requirements in the Individually Funded Systems (October 2011)

Amounts in millions of US $ (horizontal axis) and percentage of the managed funds (vertical axis)



Bol: Bolivia; Bul: Bulgaria; Chi: Chile; Col: Colombia; CR: Costa Rica; Cur: Curacao; ES: El Salvador; Kaz: Kazakhstan; Mex: Mexico; Pan: Panama; Per: Peru; Pol: Poland; RD: Dominican Republic; Rom: Romania; and Ur: Uruguay.

Note: When the requirement falls within a range that depends on a certain variable, half of that range is assumed; when there are several requirements, the most demanding is considered; the requirement that is binding for the insurance companies was considered in the case of Curacao, since the funds are endowments; if there is a maximum capital and equity ceiling and there are additional requirements as a percentage of the managed fund, the latter was used; if the requirements vary according to the scope of the fund manager's activities, the total sum was considered; in the Dominican Republic this varies on the basis of the number of members, with no limits, which explains why there are three RD references.

Capital and Reserve Requirements in the Individually Funded Systems (October 2011)

Requirement	Bolivia	Bulgaria	Chile
Minimum Capital	1,000,000 DEG (US $ 1,609,550)	Minimum initial capital is BGN 5 million (U$ 3,322,877)	5,000 UF (U$ 220,337)
Equity/Solvency	n.a.	The equity of the retirement insurance companies must at all times be equal to or higher than 50% of the minimum capital required for the creation of the company	0 – 4,999 members → 5,000 UF (U$ 220,337) 5,000 – 7,499 members →10,000 UF (U$ 440,673) 7,500 – 9,999 members → 15,000 UF (U$ 661,010) 10,000 + members → 20,000 UF (U$ 881,347)
Reserve/ Cash reserve	n.a.	i) Reserve created with yield surpluses, not more than 1% of the fund; it is part of the fund. ii) Reserve constituted with resources of the companies, not less than 1% or more than 3% of the assets of the respective fund Purpose of the reserves: to guarantee the minimum required profitability iii) Reserve to guarantee the payment of life annuity pensions to members (universal funds).	1% of each pension fund; Invested in shares of the respective fund, but is part of the assets of the AFP and the fund's liabilities. Purpose: to meet the minimum profitability requirement
Minimum Profitability	n.a.	The lesser value between: i) 60% of the average yield of the funds of the same type (universal and occupational) over the last 24 months; and ii) such average minus three percentage points	Funds A and B: The lesser value between: i) real average annualized profitability over the last 36 months of all the funds of the same type minus 4 percentage points; and ii) the aforementioned average, minus 50% of the absolute value of such average. Funds C, D and E. Same calculation, but in i) the 4 percentage points are replaced by 2 percentage points.
Other Guarantees	n.a.	n.a.	n.a.

Source: FIAP.
n.a.: Not Applicable.

Capital and Reserve Requirements in the Individually Funded Systems (October 2011)

Requirement	Colombia	Costa Rica	Curacao
Minimum Capital	Pension Funds: $ 6,831 million (US $ 3,563,455) Retirement Funds: $ 3,417 million (US $ 1,782,510) Both: $ 10,248 million (U$ 5,345,964)	Minimum capital: ¢250,000,000 (year 2000); adjusted according to the GDP each year The minimum equity capital required of the Pension Operators was set at 994,977,354 Development Units (US $ 1,459,247) in October, 2007. The minimum capital requirement based on the risks associated to the operation is equal to the sum of: 10% of the Credit Risk amount plus the operating risk amount and the value at risk of its portfolio.	Insurance companies: 4% of the managed pension resources, with a minimum of ANG. 500,000 (US $ 282,486) Pension funds: there are no specific requirements, since they are endowments
Equity/Solvency	The value of the assets of the fund managers (without considering Colombian public debt) cannot be more than 48 times the technical equity. Capital cannot be more than 10 times the minimum amount (in order to avoid economic concentration)	The minimum equity requirement is met when the base capital of the fund manager exceeds a predetermined amount, which depends on the operating risk, the credit risk (instrument risk classification) and market risk (historical value-at-risk over the last 60 days, for a temporary horizon of 21 days.)	n.a.
Reserve/ Cash reserve	Yield stabilization reserve, equivalent to 1% of the funds Invested in shares of the respective fund and financed with resources of the fund manager. Purpose: to cover defaults on the required minimum profitability of the fund	n.a.	Pension funds: (i) General reserve (5% of the funds); (ii) Investment reserve (the more the investment in shares, the higher it is); (iii) Reserve tables (0.4% of the pension resources for each year, within a period of 5 years, when the tables are revised).)
Minimum Profitability	The methodology considers the average profitability of the funds and a reference component which can comprise a reference portfolio, market indicators, or a combination of both. The calculation period varies from 36 to 60 months, depending on the fund.	n.a.	n.a.
Other Guarantees	Financial Institution Guarantee Fund, financed by the fund managers. Purpose: to ensure funding of the pension resources in case of dissolution or liquidation of the fund manager	n.a.	n.a.

Source: FIAP.
n.a.: Not Applicable.

Capital and Reserve Requirements in the Individually Funded Programs (October 2011)

Requirement	El Salvador	Kazakhstan	Mexico
Minimum Capital	0 – 19,999 members → 5 million Colons (U$ 571,429) 20,000 – 39,999 members →7,5 million Colons (U$ 857,143) 40,000 + members → 15 million Colons (U$ 1,714,286)	Open funds: 250 million Tenges or US $ 1,718,686 Corporate funds: 100 million Tenges or US $ 687,474 Another license must be obtained for managing funds directly, requiring a minimum capital of 500 million Tenges (US $ 3,437,371) and 300 million Tenges (US $ 2,062,423), for open and corporate funds, respectively.	$ 25 MM (U$ 2,160,107) → Afore $ 100,000 (U$ 8,640) → Each Basic Siefore (SB)
Equity/Solvency	Net minimum equity (PNM) cannot be less than 3% of the pension funds and not more than US$ 10 million; PNM cannot be less than the minimum capital Purpose: to guarantee minimum profitability	n.a.	Fixed capital without withdrawal rights must be at least equal to the minimum capital
Reserve/ Cash reserve	A Special Guarantee Contribution is required (AEG); this is a percentage of the assets of the managed fund; this percentage is currently 0.25% It can be constituted with the AFP's own funds, surety, bonds and other commercial instruments Purpose: to guarantee the minimum profitability	n.a.	A Special reserve, equal to 0.8% of the net assets of the Basic Siefore, must be constituted for each Basic Siefore (SB). At least 1% of the net assets of the SB, up to $ 900,000 (US$ 77,764), must be invested for each additional SB. Purpose: to cover deficits derived from non-compliance with the investment system.
Minimum Profitability	Every month, the nominal profitability of the last 12 months (RN12M) cannot be less than: i) the average RN12M of all the funds minus 3 percentage points; and ii) 80% of the average RN12M of all the funds.	n.a.	n.a.
Other Guarantees	n.a.	n.a.	n.a.

Source: FIAP.
n.a.: Not Applicable.

Capital and Reserve Requirements in the Individually Funded Programs (October 2011)

Requirement	Panama	Peru	Poland
Minimum Capital	US $ 250,000	S/. 2,279,372 (U$ 806,344)	5 million Euros (U$ 7,340,000)
Equity/Solvency	n.a.	Equal to the minimum capital; AFPs must increase capital according to operating requirements, or if required by the Superintendency to protect the rights of members.	Equity cannot be less than 50% of the minimum capital
Reserve/ Cash reserve	n.a.	Calculated daily on the basis of: i) the reserve coefficients applicable to the different investment instruments defined by the Superintendency; ii) investment in different instruments; iii) total value of the investments; and iv) the reserves maintained and the value of the managed portfolio on the previous day It is part of the assets of the AFP Purpose: to guarantee minimum profitability and coverage of losses generated by the pension funds due to non-compliance with obligations, willful misconduct or negligence.	i) Main guarantee fund: up to 0.1% of the net assets of the open pension funds, unless debts with open pension funds exceed this amount; financed with contributions of the fund managers and managed by the National Depository of Securities ii) Additional Guarantee Fund: between 0.3% and 0.4% of the net assets of the open pension funds; financed with contributions by the fund managers
Minimum Profitability	n.a.	Set by the Superintendency The lower real yield percentage reference applicable to each fund, minus a fixed percentage factor and a variable percentage factor. Backed up by the reserve and other guarantees	The lesser amount between 50% of the average weighted profitability of all the pension funds and such profitability minus 4 percentage points
Other Guarantees	n.a.	Irrevocable, unconditional, automatic, joint and several bank letter of guarantee, issued in favor of the Superintendency Amount: not less than 0.5% of the managed portfolio, minus the amount of the maintained reserve. Executed once the reserve resources have been exhausted Purpose: compliance with minimum profitability and coverage of pension fund losses due to non-compliance with obligations, willful misconduct or negligence.	Premium Account, equivalent to 0.005% of the value of the net managed assets; financed with the resources of the pension funds. The fund managers with the best results can withdraw resources from this account to be deposited in another reserve account and can subsequently draw from the latter if the profitability is higher than the variation of the GDP in the last 72 months.

Source: FIAP.
n.a.: Not Applicable.

Capital and Reserve Requirements in the Individually Funded Programs (October 2011)

Requirement	Dominican Republic	Romania
Minimum Capital	1 – 10,000 members → U$ 461,792 10,001 – 15,000 members → U$ 507,971 15.001 – 20,000 members → U$ 554,150 20.001 – 25,000 members → U$ 600,329 US $ 46,179 must be added for every 5,000 additional members	4 million Euros (U$ 5,872,000)
Equity/Solvency		Cannot drop below 20% of the minimum capital
Reserve/ Cash reserve	The Profitability Guarantee must be 1% of the pension funds and is recorded in fund shares.	n.a.
Minimum Profitability	Average weighted profitability of all the pension funds, minus two percentage points	Nominal profitability of 0% during the accumulation phase Profitability guarantee tied to the market average (benchmark revised quarterly)
Other Guarantees	Profitability Fluctuation Reserve consisting of surplus yield above certain levels defined in the rules and regulations	Guarantee fund financed with contributions of the fund managers and pension providers

Source: FIAP.
n.a.: Not Applicable.

Capital and Reserve Requirements in the Individually Funded Programs (October 2011)

Requirement	Ukraine	Uruguay
Minimum Capital	Fund managers and asset managers of non-state pension funds: a) Capital: US$ 62,500; b) Reserve Fund: US$ 25,000. If a single entity manages pension funds and assets, it must have both licenses and its capital must be at least US$ 100,000. Banks that create and manage pension funds must have a minimum capital of US$ 15 million.	60,000 UR (U$ 1,616,367)
Equity/ Solvency	Non-government pension fund managers cannot manage assets greater than 50 times their capital.	On applying for a Pension Savings Fund license, the fund manager's minimum equity, excluding the special reserve, must be the larger amount between 60,000 UR or 2% of the fund, up to a maximum of 150,000 UR (U$ 4,040,917)
Reserve/ Cash reserve	The reserves for fund managers and non-government pension fund asset managers must be US$ 25,000. If a single company engages in both activities, its reserve must be US$ 37,500. Banks that create and manage pension funds must maintain reserves, at their expense, depending on the economic situation in the country, projected inflation and yield. Reserves usually fluctuate between 1% and 4% of the assets of the managed funds. The reserve guarantees payments and the minimum profitability requirements.	Special reserve (RE) amount equivalent to a minimum of 0.5% and a maximum of 2.0% of the fund The Central bank will determine the percentage The RE cannot be less than 20% of the minimum capital; it must be invested in fund shares. Purpose: to comply with minimum profitability requirements
Minimum Profitability	Non-government pension funds cannot establish minimum yield guarantees for any pension plan. Nonetheless, the contract for managing fund assets can include the asset manager's commitment to assure a minimum profitability equivalent to the official inflation rate. Banks that manage pension funds must guarantee minimum profitability equivalent to the official inflation rate.	The lesser amount between 2% of the real annual profitability and the average real annual profitability of the system, minus two percentage points; as of 2011, the real average annual profitability will be calculated as a mean of the accumulated profitability in the last 24 months, and as of 2012, as one third of the accumulated profitability in the last 36 months.
Other Guarantees	Banks can open retirement savings accounts for their clients within the funds for guaranteeing deposits (US$ 18,750); such accounts are guaranteed by the state within the specified amount.	Profitability Fluctuation Fund constituted with the real annual profitability surplus, over and above the real average profitability of all the funds, plus the larger amount between 50% of such average and two percentage points

Source: FIAP.

I. Introduction

This study presents the capital, solvency and reserve requirements in the new individually funded pension systems that have been established in fifteen Latin American and European countries.

The profitability guarantees that many countries include in the regulations of the individually funded pension systems are closely linked to these requirements. It was deemed essential to include this information, as well as other additional guarantees incorporated in the regulations that impose further requirements on the fund managers.

The study is of a descriptive nature. The laws governing the different systems as well as some complementary rules and regulations were processed and analyzed. We also received comments from the Trade Associations[3] of the different countries included in the study, which enabled correcting and improving it. We are grateful for this support. We also recurred to the web pages of the supervising agencies of the pension systems.

[3] Comments received from FIAP members prior to October 2011 are included in this report.

II. Results

1. Bolivia[4]

a) Minimum Capital and Equity

Article 29 of the Law states that one of the requirements for granting the license to operate as a Pension Fund Manager (AFP) is that a minimum capital of one million special drawing rights (equivalent to US$ 1,609,550[5]) and represented by registered shares, must be constituted and fully paid in.

Moreover, Article 34 of the Law states that the supervising agency will intervene an AFP if its capital falls below the legal limit for a period of more than 60 calendar days.

b) Cash Reserve / Reserve

Not applicable in the case of Bolivia.

c) Minimum Profitability

Not applicable in the case of Bolivia.

d) Other Guarantees

There are payment and compensation guarantees to the supervising agency in case of damages, losses, costs, expenses and other liabilities of the AFP resulting from non-compliance or poor performance of any of its current and future obligations.

2. Bulgaria[6]

a) Capital and Minimum Equity

The minimum initial capital amount that retirement insurance companies must pay down is BGN 5 million, equivalent to US $ 1,794,559[7]. Thereafter, the equity of these companies cannot be less than 50% of the aforementioned minimum amount. If the equity falls below the minimum required amount, the company must submit a recovery schedule to the supervising agency for meeting the legal requirement.

The retirement insurance companies can take out loans of up to 10% of their equity, if such loans are used for acquiring fixed assets that are essential for compliance with the

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[4] Law No. 1.732 of December 29, 1996.
[5] DEG1 = US $ 1.60955 as of April 26, 2011.
[6] Social Insurance Code, Part Two, Supplementary Social Insurance.
[7] BGN / US $ exchange rate as of 26/04/2011: 2.7862 (Central Bank of Romania).

company's functions and the term of the loan is not more than 3 months. The companies cannot issue bonds.

b) Pension Reserve

The retirement insurance companies that manage universal pension funds (UPF)[8] and occupational pension funds (PPF)[9] must guarantee compliance with their obligations to their members with their own assets.

Companies that manage universal pension funds must mandatorily constitute pension reserves pursuant to the procedures set out by the supervising agency. The Pension Reserve must cover the payment of pensions to individuals who have lived beyond the actuarial estimates. It must be pointed out that according to the rules and regulations of the mandatory complementary retirement system, members have the right to life-long pensions when they have met the years of service and age requirements established by the public social security pillar (PAYGO program). Companies cannot distribute dividends to shareholders as long as they do not comply with the reserve requirements.

c) Reserves for Guaranteeing Minimum Profitability

Reserves must be set up in the pension funds and the retirement insurance companies to guarantee the obtainment of the minimum profitability required by the rules and regulations (see following point).

When the profitability rate obtained by a universal or occupational pension fund is more than 40% higher than the highest amount between the average yield of all the funds of the same type (universal or occupational), and such average plus three percentage points, the surplus must be transferred to the Minimum Profitability Reserve in the respective pension fund. This reserve cannot be more than 1% of the fund's assets.

Moreover, the retirement insurance company must establish, with its own resources, a reserve fund for each mandatory and complementary pension fund that it manages, for an amount not less than 1%, or greater than 3%, of the assets of the respective fund. The company can decide on the specific percentage within this range.

If the profitability of the universal or occupational pension fund is less than the required minimum, the difference must be covered with the Minimum Profitability Reserve existing in the respective fund. Should this be insufficient, the company must resort to the reserve constituted with its own resources.

d) Minimum Profitability

The retirement insurance companies are obligated to achieve a minimum profitability in the investment of the universal and occupational funds. This minimum profitability must be

[8] The Universal Pension Funds (UPF) are mandatory for all workers born after December 31, 1959.

[9] The Professional or Occupational Pension Funds (Professional Pension Funds, PPF) are mandatory for all workers who work under harsh working conditions.

separately determined by the supervising agency at the end of each quarter, for both types of funds, based on the yield obtained in the management of the assets of all the funds of the same type in the last 24 months. The minimum nominal yield percentage for the respective pension funds is equal to or less than the lesser amount between 60% of the weighted average yield and such average minus three percentage points. The weighting of each fund for calculating the average is calculated by dividing its assets by the total amount of the assets of all the funds. Such weighting cannot exceed 20% for the purpose of determining minimum profitability. Furthermore, the nominal accumulated profitability in the accumulation phase must be at least 0%.

If a mandatory and complementary fund obtains profitability below the minimum required amount, the insurance company that manages it is obligated to make up the difference until it reaches the minimum, drawing from the reserves that must be constituted for such purposes in pension funds and insurance companies.

3. Chile[10]

a) Minimum Capital and Equity

The minimum capital required for setting up a pension fund manager (AFP) is the peso equivalent of 5,000 Unidades de Fomento (UF [11]) or the amount of US $ 231,898[12].

Furthermore, the AFPs must permanently maintain equity of at least the minimum required capital, which increases with the number of members enrolled therein. The required equity is 10,000 UF for up to 5,000 members (US $ 463.796[5]), 15,000 UF for up to 7.500 members (US $ 695,694[5]) and 20,000 UF for up to 10,000 members (US $ 927,592[5]).

If an AFP's equity drops below the required minimum, it will be obligated to make up the difference over a six-month period every time this occurs. If it does not do so, its license will be revoked and the AFP will be liquidated.

b) Cash Reserve

The AFPs must maintain an asset denominated Cash Reserve, equivalent to 1% of each of the pension funds.

This Cash Reserve is invested in shares of the respective pension fund, but it is an asset for the shareholders of the AFP and a liability for the fund. The purpose of the fund is to meet the minimum profitability requirements established by law. The Cash Reserve shares are non-attachable.

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[10] D.L. 3.500.

[11] This unit is adjusted daily according to the variation of the Consumer Price Index of the previous month.

[12] Using the CLP/US$ exchange rate observed on 26/04/2011: 467.63; and the value of the UF on the same date: CLP 21,688.5.

c) Minimum Profitability

Every month, the AFPs are responsible for ensuring that the real annualized profitability of the last 36 months for each one of the pension funds is not less than the lesser percentage resulting from:

In the case of fund types A and B:

i. The average real annualized profitability in the last 36 months of all the funds of the same type, as the case may be, minus four percentage points, and

ii. The average real annualized profitability in the last 36 months of all the funds of the same type, as the case may be, minus the absolute value of 50% of such profitability.

In the case of fund types C, D and E:

i. The average real annualized profitability in the last 36 months of all the funds of the same type, as the case may be, minus two percentage points; and

ii. The average real annualized profitability in the last 36 months of all the funds of the same type, as the case may be, minus the absolute value of fifty percent of such profitability.

Pension funds A, B, C, D and E are differentiated basically by the maximum and minimum investment limits in variable income. Fund A is the fund with the highest investment in variable income, and Fund E is the fund with the lowest investment in this kind of instrument.

In case a fund has been functioning for more than 36 months, the leeway in paragraph i, in the case of funds A and B, increases from minus four percentage points to minus six percentage points. In the case of fund types C, D and E, the leeway increase from minus two percentage points to minus four percentage points.

All these rules and regulations are not applicable to any of the funds of an AFP that have been functioning for less than 12 months.

4. Colombia[13]

a) Minimum Equity

Fund managers that are part of the Individual Solidarity Savings System must have equity equal to 50% of the requirements for constituting a financial corporation; this equity will exclusively back up the running of the pension fund management business.

According to the Financial Superintendency of Colombia [14], the minimum declared capital amounts for applying for the constitution of agencies subject to its control and scrutiny are $ 6,831 million (US $ 3,563,455[8]) for pension fund managers and COL$ 3,417 million (US $ 1,782,510[8]) for unemployment fund managers. The aforementioned minimum capital amounts accumulate when the company manages both pension and unemployment funds, amounting to a total of COL$10,248 million, equivalent to US $ 5,345,964[15].

The equity assigned to pension fund management may be destined to any authorized investments and is not taken into account when assessing compliance with the respective company's equity requirements for developing its other lines of business. The accounting must be performed separately, pursuant to the provisions of the Superintendency of Banks.

In order to avert economic concentration, the companies that manage pension funds cannot hold capital amounts higher than 10 times the minimum requirement. This limit can be modified by the government, depending on the evolution of the system.

b) Solvency Ratio

The total value of the assets of all the funds and/or autonomous equity managed by the pension and unemployment fund managers and the pension fund managers, cannot be more than 48 times the technical equity of the respective agency.

c) Guarantees

The fund managers must have a Financial Institutions Guarantee Fund, constituted with their own resources, to ensure the refunding of the balance of the individual pension savings accounts in case the respective fund manager is dissolved or liquidated, without surpassing 100% of the mandatory contributions of each member, including the respective interests and yields, and 150 legal monthly minimum wages in the case of voluntary contributions. The guarantees can under no circumstances be less than those established by the Superintendency of Banks for agencies of the financial system.

[13] Law 100 of 1993; Decree No. 1.592 of 19/05/2004; Decree No. 2.664 of 12/07/2007.
[14] Article 80 of the E.O.S.F., year 2010.
[15] Exchange rate: 1,916.96 Colombian pesos to the dollar (30/11/2010).

d) Minimum Profitability

The minimum profitability a fund manager must obtain in each one of the mandatory pension fund types is determined on the basis of the sum of the following weighted factors:

1. ***Reference Component***. This can comprise the profitability of a reference portfolio, the weighted sum of the calculated profitabilities of a series of market indicators, or a combination of both.

   A *Reference Component,* based on long-term criteria, is established for each mandatory pension fund type. For its construction, the Financial Superintendency of Colombia can use a reference portfolio for each mandatory pension fund type, or the same one for all the fund types, with different weighting within the reference component, due to the structural differences of each fund.

2. ***Weighted average of the real accumulated annual profitabilities***, for each mandatory pension fund type, respecting the calculation period corresponding to each one of them. This average is calculated for fund type "i" as:

$$r_i^{average} = \sum_{j}^{n} \omega_{ij} * r_{ij}$$

$$0 \leq \omega_{ij} \leq (n-1)^{-1}$$

$Ri^{average}$	:	Average weighted profitability obtained during the calculation period by fund type "i".
i	:	Type of fund (conservative, moderate or riskiest)
ij	:	Type of fund "i" managed by the AFP "j"
n	:	Number of mandatory pension funds involved in the calculation
r_{ij}	:	Profitability obtained during the calculation period by fund type "i" managed by the AFP j.
W_{ij}	:	Weighting assigned to "rij" in the average profitability of fund type "i". This weighting is constructed on the basis of the participation if the average daily balance of fund type "i" managed by the AFP "j" within the sum of the average daily balances of the fund types "i" managed by all the AFPs. However, when the participations of the mandatory pension funds exceed the maximum weighting equal to $(N - 1)^{-1}$, the surpluses are distributed proportionally between the other mandatory pension funds of the same type until they are exhausted. If as a result of the application of this procedure, the participation of the pension funds is higher than $(N - 1)^{-1}$, the procedure is repeated.

The factors shown in numbers 1 and 2 are weighted in the following participation percentages:

Type of Mandatory Pension Fund	Reference Component	Weighted average of the profitability of each type of pension fund
Conservative fund	30%	70%
Moderate fund	20%	80%
Riskiest fund	10%	90%

The mandatory minimum profitability for each one of the mandatory pension fund types will be the lesser result of options A and B, shown in the following chart:

Type of Mandatory Pension Fund	Option A	Option B
Conservative fund	The sum of the weighted factors, reduced by 30%	The sum of the weighted factors, minus 200 basic points
Moderate fund	The sum of the weighted factors, reduced by 35%	The sum of the weighted factors, minus 300 basic points
Riskiest fund	The sum of the weighted factors, reduced by 40%	The sum of the weighted factors, minus 400 basic points

The Financial Superintendency of Colombia is responsible for defining the methodological criteria for the composition of the Reference Component through instructions of a general nature. Furthermore, in case this composition entails a reference portfolio, the Financial Superintendency of Colombia will: i) update and adjust such portfolio to market prices; and ii) amply and opportunely disclose the composition of the reference portfolio, as well as the changes made thereto as a result of the adjustment to market conditions.

The periods for calculating the accumulated mandatory minimum profitability are:

Type of Mandatory Pension Funds	Calculation Period
Conservative Fund	36 months
Moderate fund	48 months
Riskiest fund	60 months

Compliance with mandatory minimum profitability is verified by the Financial Superintendency of Colombia on a monthly basis.

The following transition rules have been established for implementing the above:

1. ***Conservative Fund:*** As of August 31, 2012, the Financial Superintendency of Colombia will perform the first revision of minimum profitability. A calculation period of the last 12 months will be used for such purposes. In subsequent revisions, the months that have passed since the initial calculation will be added to the calculation period until it reaches 23 months. Should any fund default on the minimum profitability during the aforementioned period, the corresponding fund manager must pay in the amount of said default. The first mandatory verification of minimum profitability will be performed on August 31, 2013. A calculation period of the last 24 months will be used for such purposes. In subsequent revisions, the months that have passed since the initial calculation will be added to the calculation period until it reaches the predetermined calculation period.

2. ***Moderate Fund:*** As of August 31, 2013, the Financial Superintendency of Colombia will perform the first revision of minimum profitability. A calculation period of the last 24 months will be used for such purposes. In subsequent revisions, the months that have passed since the initial calculation will be added to the calculation period until it reaches thirty-five months. Should any fund default on the minimum profitability during the aforementioned period, the corresponding fund manager must pay in the amount of said default. The first mandatory verification of minimum profitability will be performed on August 31, 2014. A calculation period of the last thirty-six months will be used for such purposes. In subsequent revisions, the months that have passed since the initial calculation will be added to the calculation period until it reaches the predetermined calculation period.

3. ***The Riskiest fund:*** As of August 31, 2013, the Financial Superintendency of Colombia will perform the first revision of minimum profitability. A calculation period of the last 24 months will be used for such purposes. In subsequent revisions, the months that have passed since the initial calculation will be added to the calculation period until it reaches thirty-five months. Should any fund default on the minimum profitability during the aforementioned period, the corresponding fund manager must pay in the amount of said default. The first mandatory verification of minimum profitability will be performed on August 31, 2014. A calculation period of the last thirty-six months will be used for such purposes. In subsequent revisions, the months that have passed since the initial calculation will be added to the calculation period until it reaches the calculation period set out in the rules and regulations. For this fund in particular, the planned basic points between August 31, 2013 and July 31, 2015, will be the following:

The Riskiest Fund between	**Option A**	**Option B**
August 31, 2013 and July 31, 2014	The sum of the weighted factors reduced by 50%	The sum of the weighted factors, minus 500 basic points
August 31, 2014 and July 31, 2015	The sum of the weighted factors reduced by 43%	The sum of the weighted factors, minus 430 basic points

The obligations assumed by the fund managers are result-oriented in as far as they guarantee members that the profitability of each one of the fund's portfolios will under no circumstances be less than the minimum mandatory profitability rate calculated and published by the Financial Superintendency of Colombia.

When the fund managers do not achieve minimum profitability, they must make up the difference with their own resources, initially affecting the Yield Stabilization Reserve defined for such companies.

e) Yield Stabilization Reserve

The fund managers must maintain a Yield Stabilization Reserve for a minimum amount equivalent to 1% of the value of the fund, represented by units of said fund. This reserve must be used to cover the default on the minimum profitability required by law.

The compounding process performed by the fund manager for the Stabilization Reserve is part of the fund manager's assets, in the investments account and in the sub-account denominated "participation in pension and unemployment funds."

5. Costa Rica[16]

a) Minimum Capital

Chapter "v" of Article 10 of the "Regulations Governing the Establishment and Functioning of Authorized Agencies and the Functioning of the Pension, Labor Capitalization and Voluntary Savings Funds stipulated in the Workers' Protection Law," states that the minimum initial capital must be at least ¢250 million, adjusted annually to the consumer price index (CPI), which is equivalent to 994,977,354 Development Units (US $ 1,459,247[17]), pursuant to circular SP-A-098, dated October 16, 2007.

b) Equity

An authorized agency is understood to have complied with the minimum equity requirements when its authorized base capital is sufficient for backing up the market, operating and credit risk requirements, according to the following formula:

$$CB >= (10\% * R_{RCR}) + R_{RM} + R_{RO}$$

Where:

[16] Workers' Protection Law No. 7.983 of 18/02/2000; Regulations governing the establishment and functioning of authorized agencies and the functioning of the pension, labor capitalization and voluntary savings funds stipulated in the Workers' Protection Law and updated as of May 19, 2010.

[17] Value of the Development Unit as of 26/04/2011: 732,368 Colons; exchange rate against the American dollar on the same date: 499.36.

CB = Capital base.
R_{RCR} = Credit Risk Requirement.
R_{RM} = Market Risk Requirement.
R_{RO} = Operating Risk Requirement.

The authorized agency calculates the liquid net worth on a monthly basis and submits the information to the Superintendency of Pensions.

The capital base is the sum of the primary and secondary capital, net of deductions. The secondary capital can be up to 100% of the primary capital for the purposes of the capital base calculations.

The primary capital is calculated based on the following items:

+ Regular equity paid into the Treasury, net of shares.
+ Minimum operating capital (the provisions of SP-A-098 of October 16, 2007, apply).
+ Preferred equity with non-accumulative dividend net of shares in Treasury.
+ Donated equity
+ Additional paid-in equity
+ Legal reserve

– The book value of the shares of the same entity given in guarantee of loan transactions.

The secondary capital is calculated based on the following items, respecting the positive or negative balance of the account:

+ Contributions for capital increases
+ Contributions over and above the minimum operating capital
+ Donations and other non- capital contributions
+ Equity adjustments due to reassessment of real estate, buildings and facilities up to an amount not greater than 75% of the account balance.
+ Adjustment due to appraisal of investments available for sale, when the balance is negative
+ Adjustment due to appraisal of investments backing up the minimum operating capital, when the balance is negative
+ Adjustment due to appraisal of derived instruments and obligations to hand over repurchase agreement bonds and security lending when the balance is negative.
+ Adjustment due to appraisal of participation in other companies
+ Accumulated profits from former fiscal years
+ Profits of the period. In case of operators that distribute profits, only 50% of the profits of the period, net of the corresponding deductions are considered.
+ Preferred equity with accumulative dividend paid into the treasury, net of shares.

The following items, net of their respective estimates, due to impairment or uncollectibility of charge-offs and accumulated depreciation, must be deducted from the sum of the primary and secondary capital:

- Investments in related companies
- 10% of the receivable accounts and commissions, except for receivable accounts and products associated to investments in financial instruments or deposits.
- 10% of the intangible, deferred and restricted assets
- 10% of real estate, chattels and equipment.

c) Operating Risk Requirement

The minimum operating capital stipulated in the Law [18] is the amount of additional, variable capital, apart from the corporate capital that is part of the company's equity, destined to covering the agency's operating risk for members. The amount of such capital must be 0.5% of the total value of the net assets managed by the authorized agency.

The authorized agencies must calculate the operating risk on a daily basis. The operating risk requirement is calculated considering the data of the month for which it is being calculated, using the following equation:

$$R_{RO} = \alpha * \sum_{i=1}^{n} S_i / n$$

Where:

R_{RO} = Operating risk requirement
i = Day *i* of the regular month
S*i* = Balance of the net assets on day *i*
n = Number of days in the month for which the calculation is being performed
α = Percentage of the requirement compared to the operating risk classification

The Superintendency performs at least one qualitative assessment of the operating risk per year. Based on the classification obtained by the authorized agency, the requirement is reduced according to the following table:

Operating Risk Classification	**Operating Risk requirement**
Less than 75%	0.50%
Between 75% and 89.99%	0.40%
Between 90% and 100%	0.25%

The reduced percentage is enforced the month after the definitive classification has been communicated, and is maintained while the classification is valid. When the assessment

[18] Article 37, second paragraph, Law 7.983.

evidences a deterioration of the classification, the entity must pay in the required capital within a period of no more than 60 calendar days. The new requirement will be maintained for at least six months, unless an additional deterioration is detected which ranks the agency in a classification bracket that requires a higher amount of capital.

d) Credit Risk Calculation

Authorized agencies must calculate the credit risk of their deposits and investments in financial instruments on a daily basis. The maximum value observed during the last 30 calendar days prior to the calculation date, including the last day of the month, is established as the credit risk requirement.

This calculation must include the financial instruments that are insolvent, in arrears or in litigation, as well as those that are expired or restricted and the receivable accounts and products associated to deposits and investments in financial instruments. The credit risk requirement of the authorized agency is calculated by applying the weighted percentages given below to the market value of each one of the agency's investments in financial instruments or deposits.

$$R_{RCR} = \sum_{j=1}^{m} p_j * V_j$$

Where:

R_{RCR}	=	Credit risk requirement
j	=	Deposit or instrument *j* of the financial instruments investment portfolio.
V*j*	=	Market value of instrument or deposit *j*
m	=	The number of deposits and instruments in the financial instruments investment portfolio
p*j*	=	Weighting factor applicable to instrument or deposit *j*

The applicable credit risk weighting factors are the following:

Type of Issuer	Term	Classification	Weighting factor
Foreign	Long-term	AAA	0%
		AA	10%
		A	25%
		BBB	50%
		BB	75%
		B	90%
		CCC and Others	100%
	Short-term	A +	0%
		A1	10%
		A2	25%
		A3	50%
		B	75%
		C and Others	100%
Local	Long-term	AAA	75%
		AA	75%
		A	75%
		BBB	90%
		BB	90%
		B	90%
		CCC and Others	100%
	Short-term	1	75%
		2	75%

The credit-risk weighting factor for securities issued in local currency by the Ministry of Finance of Costa Rica is 5%, and 0% for those issued by the Central Bank of Costa Rica.

e) Calculation of Market Risk

The authorized agencies must calculate the market risk of their investment portfolios on a daily basis. The market risk requirement of the authorized agency is equal to the maximum observed VaR value of the agency's investment portfolio over the last 60 calendar days prior to the calculation date, including the last day of the month. The VaR is calculated historically, considering a degree of reliability of 95%, 500 observations and a temporary horizon of 21 days. The methodology for calculating the VaR is established by the Superintendency.

6. Curacao

a) Minimum Capital

A distinction must be made between the pension funds and the insurance companies that offer pensions.

The regulations governing the insurance companies require 4% of the total amount of he managed resources, with a minimum of ANG 500,000 (US $ 282,486)[19].

On the other hand, there is no specific minimum capital requirement for the pension funds (they are all endowments). But there are actuarial rules and regulations that make it mandatory to engage external actuaries who must certify the pension benefits and the financial status of the fund every year.

b) Reserves

Pursuant to standing actuarial rules and regulations, the pension funds must maintain several types of reserves.

i. A General Reserve (5% of the fund balance);

ii. Investments Reserve for cushioning the fluctuations in the value of the investments (the more the investment in shares, the higher the reserve must be);

iii. Mortality tables reserve; its purpose is to finance the economic impact generated by changes in the mortality tables, which are updated every 5 years and which basically reflect the additional cost due to increased longevity. 0.4% of the pension fund balance is reserved over a period of 5 years, in other words, a total accumulated amount of 2% of the pension fund balance in said period.

iv. Reserve for financing the disability cost.

The rules and regulations distinguish between the defined benefit (DB) programs and the individually funded (DC) plans. The participants in the latter are covered for disability and survival through tariffs agreed with the reinsurance company (Alhermij in Holland). The amounts paid are deducted from the available premium every year.

Every year, the defined benefit programs must reserve 8% of the actuarial sum necessary for financing the increase in the pension amounts of the participants throughout the year. This is used for covering the disability risk which the fund is liable for. These reserves basically constitute the equity of the pension funds. The degree of coverage must always be a minimum of 105%, but the target is to reach 115%.

[19] Exchange rate ANG / US $ of 1.77 as of 26/04/2011

c) Liquidity

The companies must at all times maintain minimum liquidity for paying pensions and administration and general expenses.

d) Minimum Profitability

The Central Bank, which is the supervising agency, requires solid investments. This agency is authorized by law to intervene a pension fund if it does not have sufficient means.

The minimum actuarial interest maintained by the companies is 4%. There are no official regulations governing minimum profitability. Each fund invests in accordance with its risk profile, which is determined through asset liability studies every five years. The aim is to obtain a minimum yield of 6% (4% actuarial interest plus an additional percentage to cover administration and general expenses), although the long-term goal is to achieve yield of 7% as an annual average.

7. El Salvador[20]

a) Corporate Capital

The corporate capital required for setting up a fund management agency cannot be less than 5 million Colons (US $ 571,429[21]), which must be fully subscribed and paid in cash at the time the company is incorporated.

The fund manager must increase its corporate capital when any of the following circumstances occur:

i. To seven million five hundred thousand colons (US $ 857,143) when the number of enrolled members reaches 20,000; and

ii. To fifteen million Colons (US $ 1,714,286) when it has 40,000 or more enrolled members.

In any of these circumstances, it must increase its capital by the amounts necessary for complying with the minimum net equity.

The Superintendency of Pensions must adjust the corporate capital amounts given in the foregoing paragraphs every two years, based on the variation of the consumer price index and subject to the approval of the Central Reserve Bank of El Salvador. However, the requirement established in the law has remained unaltered over time, since he Superintendency has not considered it necessary to adjust the equity requirement for the time being[22].

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[20] Decree No. 927 of 23/12/1996.
[21] Colon to American dollar exchange rate as of 26/04/2011: 8.75.
[22] Source: Intendency of the Pension Savings System of the Superintendency of Pensions (27/12/2010).

b) Minimum Net Equity

In order to be able to carry out their activities, fund managers must at all times dispose of a minimum net equity that cannot be less than 3% of the value of the managed pension funds, and not more than ten million American dollars. Notwithstanding the above, the minimum net equity cannot be less than the previously defined required corporate capital.

Net equity is understood to be the paid-in capital, the legal reserve and other capital reserves, plus the surplus accounts and withheld profits, fifty percent of the profits net of income tax in the current fiscal year, 50% of the reassessments authorized by the Superintendency of Pensions deducted from the capital participation in other companies and the losses, should there be any.

c) Special Guarantee Contribution

Each fund manager must constitute and maintain a Special Guarantee Contribution (AEG) whose purpose is to guarantee the minimum profitability of the fund it manages. This guarantee must be equivalent to a percentage of the assets of the real managed fund, and cannot be more than 3% of the fund. This percentage is set by the Superintendency of Pensions and is currently 0.25%. The fund managers can use their own resources, surety, letters of guarantee or other financial instruments to meet with the required percentage.

The AEG can be constituted jointly by means of financial instruments and own resources, as long as the backup of the percentage required for the AEG is not insufficient. When the AEG is constituted with the AFP's own resources, it must be invested in shares of the fund. When the AEG is guaranteed with letters of guarantee, these must be taken out with the fund manager's own resources in financial agencies registered with the Public Registry of the Pension Savings System (SAP), and have the minimum classification required for issuances that can be acquired with the resources of the pension funds. The AEG cannot be constituted with letters of guarantee issued by companies of the financial conglomerate that the AFP belongs to.

The Special Guarantee Contribution is non-attachable for liabilities other than those assumed with the pension funds, and is not guaranteed by the minimum profitability. It is calculated daily, based on the average value of the fund in the foregoing fifteen calendar days.

The value of the AEG in the financial statements of the AFPs has been zero since June, 2010, because on that date both AFPs had taken out letters of guarantee that cover 100% of the legal requirement.

d) Minimum Profitability

The fund managers are liable for keeping the monthly nominal profitability of the fund over the last twelve months above the lesser of the following:

i. The average nominal profitability of all the pension funds over the last twelve months, minus three points; and

ii. Eighty percent of the average nominal profitability of all the funds over the last twelve months.

The above is not applicable to fund managers that have been operating for less than twelve months.

The minimum profitability is assured by the Profitability Fluctuation Reserve, which is part of the fund; the Special Guarantee Contribution, and the Minimum Net Equity, in that order. The last two items belong to the fund manager.

e) Profitability Fluctuation Reserve

The Profitability Fluctuation Reserve is constituted with the nominal yield surpluses of the respective fund over the last twelve months, which in one month are higher than the higher percentage between:

i. The nominal profitability over the last twelve months of all the funds, plus three points; or

ii. The nominal average profitability of all the funds over the last twelve months, plus twenty percent.

This reserve must be expressed in shares of the respective pension fund.

The balance of the Profitability Fluctuation Reserve can be destined as follows:

i. To cover the difference between the minimum profitability and the fund's profitability over the last twelve months, in case the latter is less;

ii. When the fund manager decides to do so, increase the profitability of the fund in a specific month until it reaches the lesser value between:

    ii.1 The average profitability of all the funds over the last twelve months, plus three points;

    ii.2 The average profitability of all the funds over the last twelve months, plus twenty percent.

    This can only be applied if the Profitability Fluctuation Fund surpasses the value of the fund by 1%;

iii. When the accumulated resources in the Profitability Fluctuation Reserve are more than one percent of the value of the fund over a period of two years, the surplus over and above that percentage must be mandatorily paid into the individual savings accounts of members, whatever the profitability obtained may be;

iv. Contribute the total amount of the reserve to the fund on the date of the liquidation or dissolution of the fund manager.

8. Kazakhstan

a) Minimum Capital

The minimum amount of capital issued and paid in by the pension fund managers must be:

i. For open pension funds: not less than 250 million Tenge, or US$ 1,718,686[23].

ii. For corporate pension funds: not less than 100 million Tenge, or US $ 687,474.

For a fund manager to be able to directly manage the investments of the pension funds, it must obtain a special license for performing this activity, granted by the supervising agency. Once it has received such license, which authorizes it to operate as an investment fund manager, it can render portfolio management services and perform other capital market transactions. The minimum amount of issued and paid-in capital these investment fund managers must have is:

i. For the open pension funds: not less than 500 million Tenge, or US $ 3,437,371.

ii. For corporate pension funds: not less than 300 million Tenge, or US $ 2,062,423.

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[23] Tenge – US $ exchange rate as of 26/04/2011: 145.46.

9. México[24]

9.1 Afores

a) Minimum Capital

The minimum capital is determined by the National Commission for the Retirement Savings System and must abide by the following rules:

i. The amount invested in chattels and equipment, in real estate, in property rights that are not guarantees or installation expenses, plus the amount of the investment in the capital of companies that render complementary or auxiliary services to them, must not be more than 40% of the required paid-in minimum capital; and

ii. The remaining amount of the required paid-in minimum capital must be invested in shares of the investment companies they manage.

CONSAR may authorize a higher percentage than that established in "i", up to a maximum of 60%.

The fixed paid-in minimum capital, without the right to withdrawal, with which fund managers must currently operate is $ 25,000,000[25], equivalent to US $ 2,160,107[26].

b) Fixed Capital

The fund managers must permanently maintain a fully paid-in fixed capital, without the right to withdrawal, which must be at least equal to the required minimum capital published by CONSAR.

c) Special Reserve

The fund managers are obligated to constitute and maintain a special reserve, invested in shares of each one of the investment companies they manage. The Board of Directors of CONSAR determines the amount and composition of the special reserve, based on the capital subscribed and paid in by the workers, taking into account the nature of each investment company.

The amount of the Special Reserve is calculated as follows:

i. In each basic investment company it operates, the fund manager must invest at least an amount equivalent to 0.8% of the net assets of such investment company.

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[24] Law of the Retirement Savings Systems of 23/5/1996.

[25] CONSAR Circular 02-7, general rules that establish the equity system that the retirement fund managers will be subject to, the PENSIONISSSTE, the specialized retirement fund investment companies and the special reserve. Date 14/06/2007.

[26] Mexican peso / American dollar interbank exchange rate on 26/04/2011: 11.5735.

ii. For each basic investment company it operates, the fund manager must invest at least an amount equivalent to 1.0% of the net assets of such investment company, until it has reached $ 900,000 (US $ 77,764[27]).

When deficits occur that are derived from non-compliance with the authorized investment system for reasons other than appraisal, or in case an application for temporarily maintaining defaults or excess investments due to price variations has not been submitted to CONSAR, the fund manager that operates the investment company involved must cover them by drawing of the Special Reserve, and in case this reserve is insufficient, it must draw from its own corporate capital.

The special reserve must be constituted regardless of whether the legal reserve stipulated in the General Law of Commercial Companies has been paid in.

9.2 Siefores

a) Minimum Capital

The minimum capital required of the company is established by CONSAR and consists of fixed capital shares which can only be conveyed with prior authorization from CONSAR, which will not be necessary in case they are conveyed to the fund manager that operates them.

Investment companies are not obligated to constitute the reserve fund described in the General Law of Commercial Companies.

The minimum fixed paid-in capital with which each investment company must operate is $ 100.000, equivalent to US $ 8,640.

10. Panama

The minimum capital required for pension fund managers is US $ 250,000.

11. Peru[28]

a) Minimum Capital and Equity

The minimum capital required of the AFPs for 2011 is S/ 2,279,372[29], equivalent to US $ 806,344[30]. This amount is adjusted annually against the consumer price index for Metropolitan Lima and regularly published by the INEI. Notwithstanding this requirement, the law states that the AFPs must increase their corporate capital in accordance with the

[27] Mexican peso / American dollar interbank exchange rate on 26/04/2011: 11.5735.
[28] Sole Ordered Text of the Law of the Private Pension Fund Management System.
[29] Circular No. AFP – 120 – 2011.
[30] Exchange rate: S/. 2.82680 per dollar (26/04/2011).

requirements of the operation, or if required by the Superintendency, for the sole purpose of protecting the rights of members.

b) Cash Reserve

The required cash reserve is constituted with the AFP's own resources and is calculated and updated daily, based on: i) the reserve requirements applicable to the different investment instruments; ii) the amounts invested in such instruments; iii) the total value of the investments; iv) the cash reserve maintained and the value of the managed portfolio on the previous day. The reserve requirements are determined by the Superintendency of AFPs on the basis of the risk categories of the different investments. Volatility indicators are taken into account in the case of shares and bonds representative of rights in shares in deposit registered on the stock exchange and certified as being preferred subscription.

The formulas for calculating the reserve requirement are the following[31]:

i) $E_t = f \sum e_{ti} * V_{t-1,i}$ tal que $\sum V_{ti} = V_tF$

ii) $f = 1 - [EM_{t-1} / VA_{t-1}]$

iii) $e_t = E_t / V_tF$

iv) $e_{ti} = 0$, if i = bonds issued by the central government and the central bank, expiring within a term of not more than 20 days.

Where:

E_t	=	Value of the cash reserve required on day t.
V_{it}	=	Amount invested in investment instrument i- on day t.
V_tF	=	Total value of the investments on day t.
E_{ti}	=	Reserve requirement applicable to investment instrument i on day t, determined by the Superintendency.
EM_{t-1}	=	Value of the reserve fund maintained on day t-1
VA_{t-1}	=	Total value of the assets of the portfolio managed on day t-1
E_t	=	Effective reserve requirement for the total amount of investments.
f	=	Percentage participation of the pension fund in the managed portfolio.
n	=	The number of investment instruments that are part of the managed investment portfolio.

According to information provided by the Superintendency of Banks, Insurance and AFPs, the cash requirement is equivalent to 1% of the pension funds.

31 Resolution S.B.S. No. 1936 – 2007 of 28/12/2007.

The maintained cash reserve is part of the assets of the fund manager and is also calculated and updated on a daily basis, multiplying the value of the share of the managed portfolio by the number of shares corresponding to the maintained cash reserve.

The required cash reserve differential generated as a result of the reduction of the risk classification by the Superintendency, caused by a fundamental change that has not yet been incorporated in the classification of the instrument, must be covered with contributions by the AFP, or alternatively through the presentation of an irrevocable, unconditional, automatic, joint and several bank letter of guarantee, made out to the Superintendency, by a bank whose term deposits of less than one year have been classified in a category equivalent to CP-1, for the term required for performing a new classification of the affected value.

c) Letter of Guarantee

Notwithstanding the cash reserve, the AFPs must constitute a guarantee for ensuring compliance with the minimum profitability, by means of an irrevocable, unconditional, automatic, joint and several bank letter of guarantee made out to the Superintendency by a bank whose term deposits of less than one year have been classified in a specific risk category.

The Superintendency is authorized to request the substitution of the submitted guarantee when the guarantor does not meet the established requirements. In case the guarantee is constituted by means of a letter of guarantee issued by a foreign bank, it must be classified as top category by the Central Bank. It must also prove the existence of a corresponding bank in the country which could execute the guarantee, should it be necessary.

The guarantee provided by means of the letter of credit must be submitted to the Superintendency at the beginning of each quarter and must be issued for an amount not less than 0.5% of the value of the managed portfolio, minus the value of the maintained cash reserve.

In case the appraisal of the value of the managed portfolio increases by more than 10% with respect to the value at closure of the previous month, the AFP is automatically obligated to substitute the aforementioned guarantee for a new one, using the value of the managed portfolio at the time such growth was recorded as a reference.

The letter of guarantee is subject to execution only when the resources that comprise the cash reserve have been exhausted.

d) Minimum Profitability

The minimum profitability is guaranteed by the cash reserve and other guarantees put up by the AFP. The cash reserve and the other guarantees will be used for covering possible losses that the AFP generates in the pension funds due to non-compliance with the provisions of the Law and its regulations, willful misconduct or negligence.

The Superintendency will calculate the minimum profitability of each fund as the percentage which in real terms is less when subtracting a fixed percentage factor and a variable percentage factor from the yield obtained by the applicable profitability reference indicators. Said profitability indicators are approved by the Superintendency at the request of the AFPs.

The Superintendency sets the minimum profitability guarantees corresponding to each fund, including the cash reserve. In case minimum profitability is not achieved, such guarantees are used for compensating the affected fund. If they are not sufficient, the AFP must contribute resources to make up the minimum profitability within a term determined by the Superintendency.

12. Poland[32]

a) Minimum Capital

The minimum capital of a pension fund manager cannot be less than the equivalent of 5 million Euros (US $ 7,340,000[33]).

b) Minimum Equity

Fund managers are obligated to maintain their equity above 50% of the aforementioned minimum capital. The fund manager must immediately inform the supervising agency of any reduction of equity below said 50%. The supervising agency, in turn, must call on the fund manager to complete the equity, defining the term, which cannot be less than three months, or more than 12. In case the obligation of complementing the equity to 50% of the minimum capital is not met within the term defined by the supervising agency, the latter shall be empowered to cancel the fund manager's operating license.

c) Guarantee Fund

The guarantee fund comprises one principal part (FG-P) and another traditional part (FG-A).

The principal part is managed by the National Depository Authority. Contributions by the fund managers to the FG-P are an equal percentage for all the open pension funds and consist of the net assets of the open pension funds of the fund managers.

The Council of Ministers defines:

i. The amounts and the rules for making payments to the FG-P, under the condition that the total value of the resources cannot exceed 0.1 of the value of the net assets of all the open pension funds, unless the amount of the debts of the Guarantee Fund with the open pension funds exceeds this amount.

[32] Law of 28 August, 1997, on organization and operation of pension funds

[33] American dollar/Euro exchange rate on 27/04/2011: 1,4680.

ii. The rules and regulations for establishing the amount of resources that must be transferred by the pension funds to the accounts that comprise the additional part of the Guarantee Fund (see following paragraph).

iii. The procedures applicable to the fund managers for drawing surplus resources from the accounts that represent the FG-A.

iv. The methodology for making payments to the FG-P, as well as the functioning procedures, including the investment of the respective resources.

v. The rules for managing the resources of the FG-P, the amount of the commissions that will be paid to the national depository authority for managing these resources and the form of payment; the procedures for reimbursement to the fund managers and the methods used for liquidating the position of the fund managers that cease to operate.

The open pension funds must open accounts that are an additional part of the Guarantee Fund, to which the fund managers must contribute. The amount of resources kept in these accounts must not be less than 0.3% or more than 0.4% of the value of the net assets of the open pension funds. The resources kept in the accounts that make up the FG-A must be part of the assets of the pension funds and must be expressed in their account units.

The Guarantee Fund has the following inputs:

i. Contributions paid in by the fund managers with their own resources;

ii. Revenue due to the investment of the accumulated resources.

Payments must be made using the FG-P resources for any open pension fund with a deficit (see following point), if the FG-A resources accumulated in this fund are not sufficient for covering the deficit. One must bear in mind that the possible losses caused to members, which are not the responsibility of the fund managers, as well as losses generated by fund managers in bankruptcy that cannot be financed with assets from such companies, must be covered by the guarantee fund.

The fund managers must answer for any loss resulting from non-compliance with obligations or negligence, unless they are a result of circumstances that the fund managers are not liable for, and which they were unable to prevent.

If the FG-P resources are insufficient, the national depository authority must determine the amounts of the payments that must be made from the FG-A of the different open pension funds, as an equal percentage for all of them. In this case, the fund managers must contribute resources for supplementing the FG-A.

d) Minimum Profitability

The profitability of the pension funds over a 36-month period must be at least equal to the minimum required profitability rate. The latter is understood to be a value between 50% of the average weighted profitability of all the pension funds, or such average profitability minus 4 percentage points. The average profitability is calculated twice a year, at the end of March and the end of September. For calculation purposes, the weighting of each fund cannot exceed 15%. This weighting is determined as the average market participation in the assets managed during the 36-month period.

In case a deficit occurs, the respective pension fund is obligated to reimburse the account units accumulated in the reserve account referred to in the following point, in the necessary amount for covering the deficit. Hence, the pension fund must increase the value of the account unit. The deficit amount must be calculated as the product of the account units in the respective pension fund on the last working day of the 36-month period, multiplied by the difference between the value of the account unit that ensures the minimum required profitability rate and the real value of the account unit on the aforementioned date.

Deficits that are not covered by the reserve account must be financed by the FG-A corresponding to that fund. If the FG-A is insufficient, the fund manager must cover it with its own resources. The gaps that are not covered by the fund manager must be financed with other resources of the Guarantee Fund, provided that the FG-P resources are used first. Having covered part of the deficit, the Guarantee Fund shall have the right to demand resources from the fund manager or the bankrupt company and will distribute them between the FG-P and the FG-A in the same proportion in which they were used to cover the deficit. If the fund manager is not capable of deficit in the manner described above, it will enter the bankruptcy process, which must be requested by the supervising agency.

If the deficit was caused by a loss of assets of the custody agency, the latter must cover it before using the reserve account, the fund manager´s general resources or the resources of the Guarantee Fund.

Finally, the Public Treasury must finance, as the guarantor, the deficits that cannot be covered with the resources of the Guarantee Fund.

e) Reserve Account

The open pension funds must open a Reserve Account (CR). The resources of this account are part of the assets of the funds and must be converted to account units.

The open pension funds must transfer resources for an amount not greater than 0.005% of the value of the net managed assets, from their assets to the fund manager. Subsequently, the fund manager must pay this amount into the premium account (CP). The open pension funds must open a CP in which they must keep these resources, which are part of the funds, and they must be expressed in account units.

On the working day following the publication of the average profitability rate for all the pension funds by the supervising agency:

i. The company managing the fund that obtained the highest profitability rate shall have the right to draw all the resources accumulate in the CP, as long as such profitability has surpassed the variation of the consumer price index.

ii. The company that achieved the lowest profitability must immediately transfer all the resources in the CP to the open fund.

iii. The companies that manage pension funds shall have the right to withdraw up to 0.005% of the net assets being managed, in other words, the full amount of the CP, as long as the profitability has surpassed the variation of the consumer price index. However, the effective amount of the withdrawal will depend on the profitability obtained in the last 36 months and is calculated by multiplying the total amount of the resources accumulated in the CP by a percentage (W_p), which is equal to the division between: the difference between the profitability obtained by a specific pension fund (R_i) and the profitability rate obtained by the fund with the worst result (R_{min}); and the difference between the profitability rate obtained by the fund with the best result (R_{max}) and the worst result.

$$W_p = (R_i - Rmin) / (R_{max} - R_{min})$$

The fund managers that have acquired the right to withdraw the resources accumulated in the CP must immediately transfer them to the CR.

The fund managers may withdraw the resources accumulated in the CR if the profitability of the funds managed by the company over the last 72 months is higher than the variation of the consumer price index in the same period. The calculations are performed in March and September each year.

13. The Dominican Republic [34]

a) Minimum Capital[35]

The minimum capital the AFPs must hold is the following:

Number of Members		Minimum Capital Required	
From	To	RD $	US $[36]
1	10,000	17,479,852	461,792
10,001	15,000	19,227,838	507,971
15,001	20,000	20,975,823	554,150
20.001	25,000	22,723,808	600,329

Rows must continue to be added to the table by adding 5,000 members in the "From" and "To" columns, as required. For every new row added, RD$ 1,747,985 (US $ 46,179) must be added to the figure in the cell immediately above it in the column "Minimum Capital Required (RD$)." This capital must be indexed annually in order to maintain its real value.

Based on the above, the minimum capital for fund managers with 285,000, 460,000, 690,000 and 730,000 members, which are membership figures similar to those of the fund managers currently operating, are US $ 3,001,646, US $ 4,617,916, US $ 6,742,158 and US $ 7,111,591, respectively.

b) Minimum Profitability

All members of the pension system have the right to a minimum real profitability guarantee of their individual account, which is calculated by the Superintendency of Pensions and is equivalent to the average weighted profitability of all the pension funds, minus two percentage points.

c) Minimum Profitability Guarantee Account

All the pension fund managers must mandatorily maintain an account denominated "Profitability Guarantee," destined exclusively to completing the minimum profitability required by law when the real profitability is insufficient. The amount of this account must be equivalent to 1.0% of the pension funds, must be expressed in fund shares and is non-attachable.

34 Law No. 87 – 01 which created the Dominican Social Security System on 9/05/2001.

35 Circular 71-10 on annual indexation, which updates the minimum capital required of the pension fund managers (AFPs), dated 28/01/2010.

36 Exchange rate RD$ / US $ on 25/04/2011: 37.85225 (average purchase-sale financial agencies).

d) Minimum Profitability Equity Guarantee

If the minimum profitability in a specific month is less than the real profitability of the last twelve months and is not covered by the Profitability Fluctuation Reserve, the AFP must cover it by drawing from the Profitability Guarantee Account. When the resources of the Profitability Fluctuation Reserve and the Profitability Guarantee are not sufficient for completing the minimum profitability, the AFP must make up the difference with its own equity.

e) Profitability Fluctuation Reserve

The Profitability Fluctuation Reserve is formed with the real yield surpluses of a pension fund over the last 12 months, which surpass the real, average weighted profitability of all the pension funds in the last 12 months, minus two percentage points. Such reserve is calculated monthly and is destined as follows:

i. To cover the difference between the minimum defined in the law and the pension fund's real profitability in the last 12 months, in case it is less;

ii. When the AFPs calculate the profitability of the pension funds in a specific month, increase such profitability until it reaches the higher value between the real average profitability over the last 12 months of all the pension funds, plus two percentage points, and 150% of the real profitability of all the funds over the last twelve months. This application can only be performed with Fluctuation Reserve amounts that exceed 1% of the value of the fund;

iii. When the resources accumulated in the Profitability Fluctuation Reserve exceed 1% of the value of the pension fund for more than 2 years, the excess over and above that percentage must be mandatorily paid into the individual accounts of members, whatever the profitability obtained; or

iv. Pay into the pension funds the total amount of the reserve on the date of the liquidation or dissolution of the AFP.

14. Romania [37]

a) Minimum Corporate Capital

The minimum corporate capital required for managing a pension fund is the equivalent of 4 million Euros (US $ 5,872,000[38]). The fund manager is obligated to inform the Private Pensioned Supervision Commission (The Commission) of any drop in the corporate capital below the minimum amount. If a capital deficit occurs, the fund manager must replace it

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[37] Law N° 411/2004 on Privately Managed Pension Funds (as modified and amended by the Government Emergency Ordinance No. 50/2005 and by Law N° 23/2007.

[38] American dollar / Euro exchange rate on 27/04/2011: 1.468.

within the term indicated by the Commission, which cannot be less than 3 months, or more than 6 months.

b) Pensions Guarantee Fund

This fund is financed with the contributions paid in by the fund managers and pension providers, for the purpose of protecting the rights of members and beneficiaries acquired within the pensions system, regulated and supervised by the Commission.

15. Ukraine[39]

a) Minimum Capital and Equity

The fund managers and the managers of the assets of non-government pension funds must have a minimum capital of US $ 62,500 and a reserve fund of US $ 25,000. If a single entity manages pension funds and assets, it must have both licenses and its capital must be at least US$ 100,000. Banks that create and manage pension funds must have a minimum capital of US$ 15 million.

Furthermore, non-government pension fund managers cannot manage assets greater than 50 times their capital.

b) Reserves

The reserves for fund managers and non-government pension fund asset managers must be US$ 25,000.
If a single company engages in both activities, its reserve must be US$ 37,500.
Banks that create and manage pension funds must maintain reserves, at their expense, depending on the economic situation in the country, projected inflation and yield. Reserves usually fluctuate between 1% and 4% of the assets of the managed funds. The reserve guarantees payments and the minimum profitability requirements.

c) Minimum Profitability

Non-government pension funds cannot establish minimum yield guarantees for any pension plan. Nonetheless, the contract for managing fund assets can include the asset manager's commitment to assure a minimum profitability equivalent to the official inflation rate.
Banks that manage pension funds, on the other hand, must guarantee minimum profitability equivalent to the official inflation rate.

[39] Information provided by Public Joint-Stock Company Joint-Stock Commercial Bank Arcada, a FIAP member in Ukraine.

d) Other Guarantees

Banks can open retirement savings accounts for their clients within the funds for guaranteeing deposits (US$ 18,750); such accounts are guaranteed by the state within the specified amount.

16. Uruguay[40]

a) Minimum Capital and Equity

The minimum capital necessary for the incorporation of a fund manager is 60,000 UR [41] (US $ 1,616,367[42]).

Once the fund manager has initiated the process of setting up a Pension Savings Fund, the minimum equity, excluding the special reserve, cannot be less than 60,000 UR or 2% of the value of the fund, should the latter be higher, up to an amount of 150,000 UR (equivalent to US $ 4,040,917), which is the maximum requirement.

b) Special Reserve

The fund managers must pay in and at all times have available a minimum reserve equivalent to 0.5% of the respective Pension Savings Fund and a maximum of 2% thereof, which is denominated Special Reserve (RE). The Central Bank of Uruguay regulates the aforementioned percentage for each period it determines, based on proven risk coverage technical criteria, notwithstanding the rules, regulations and measures of a specific nature that it may adopt with regard to such criteria.

The RE cannot be less than 20% of the minimum capital described in letter a), and must be invested in shares of the Pension Savings Fund. Its purpose is to guarantee the real minimum profitability rate required of the AFAPs.

The goods and rights it consists of are non-attachable.

c) Minimum Profitability

The real and nominal average profitability rates of the system are determined by calculating the weighted average of the profitability rate of all the pension savings funds.

The fund managers are responsible for ensuring that the real profitability rate of the respective Pension Savings Fund is not less than the real annual minimum profitability rate of the system, which is calculated monthly.

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40 Law No. 16.713 of September 3, 1995.
41 Adjusted units pursuant to article 38 of Law No. 13.728 of December 17, 1968.
42 Value of the UR in April 2011: 508.94 Uruguayan pesos. $ / US $ exchange rate on 26/04/2011: 18.892.

The real minimum profitability rate of the system is the lesser figure between 2% of the annual profitability rate and the real average annual profitability rate of the system, minus two percentage points.

In 2011, the real annual profitability rates were calculated as an average of the accumulated profitability in the last 24 months, and as of 2012, they will be calculate as one third of the accumulated profitability in the last 36 months.[43]

The minimum profitability requirements are not applicable to the fund managers that have been functioning for less than 12 months.

When the profitability of a pension savings fund in any given month is less than the real minimum profitability rate of the system, and this difference cannot be covered by the Profitability Fluctuation Fund, the fund manager must apply the resources of the Special Reserve for such purposes. If after fully applying the resources of the Special Reserve, the deficit in the profitability of the pension savings fund cannot be covered, the State will pay in the difference.

d) Profitability Fluctuation Fund

Every fund manger must have a Profitability Fluctuation Fund that is part of the Pension Savings Fund, and whose purpose is to guarantee the minimum profitability rate.

Contributions are paid into the Profitability Fluctuation Fund monthly, as long as the profitability of the fund is positive. Any surplus amount over and above the average profitability rate of the system, increased to the maximum between 2 percentage points and 50% of the average profitability of the system, is paid into the Profitability Fluctuation Fund and is expressed in shares.

The Profitability Fluctuation Fund is used for the following:

i. To cover the difference between the real minimum profitability rate of the system and the profitability rate of the pension savings fund, in case the latter is less.

ii. Mandatorily deposit in the individually funded savings accounts of members the accumulated funds that exceed for more than one year 5% of the pension savings fund.

iii. Whenever the fund manager deems it convenient, increase the profitability of the individually funded savings accounts in a specific month, previously verifying the following conditions:

 - After using the profitability fluctuation fund, its balance must be at least 3% of the pension savings fund.

[43] Law 18.673 of July 23, 2010.

- The corresponding Profitability Fluctuation Fund cannot be reduced by more than 10% in any given month.

iv. Deposit in the pension savings fund the full balance of the Profitability Fluctuation Fund on the date of the liquidation or dissolution of the fund manager.