

RULES
on the auditing departments and independent parties responsible for internal control of pension funds No. 687 of 10 September 2001

Article 1

These Rules apply to the auditing departments and independent parties responsible for internal control of pension funds, cf. Article 34, paragraph 1, of Act no 129/1997 regarding mandatory insurance of pension rights and operations of pension funds.

Article 2

The parties responsible for internal control of pension funds, cf. Article 1, shall be competent and independent in their work. They cannot be members of the board of a pension fund or undertake any work for the fund that might compromise their independence as supervisors.

Article 3

In the case of an independent party responsible for internal control, a written contract shall be made between the management of the fund and the party, stating the execution of the internal control. Such a contract shall, at a minimum, contain the contents of Articles 4 and 6 in these Rules.

If a pension fund has made a contract with a securities company or a credit institution regarding the management of the fund, the internal control of the fund becomes the responsibility of the management company's internal auditing division or its internal control party, cf. Articles 4-6 of these Rules.

Article 4

The auditing department or independent party shall make proposals regarding the organisation of the internal control and submit for approval by the fund's board of directors or the management company. The organisation of the internal control shall be reviewed on a regular basis by the auditing department or independent party and any proposals regarding change shall be submitted for approval by the fund's or the management company's board of directors.

The management company shall inform the fund's board of directors on the proposals regarding the organisation of the internal control cf. paragraph 1.

Article 5

The internal control measures of the auditing department or independent party shall, at a minimum, address the following issues:

1. Whether the pension fund operates in accordance with the appropriate laws, rules and resolutions/articles of association.
2. Whether there exist clearly defined written rules of operation detailing the duties, responsibilities, and authorizations of each member of staff, and whether these rules are obeyed.

3. Whether the operating rules of the fund include sufficient internal control. Particular attention shall be paid to whether the rules of operations include sufficient segregation of duties between staff that handles funds and those in charge of accounting.
4. Monitoring the safeguarding and handling of financial assets of the pension fund by a regular review of the existence of assets and reconciliation of accounts.
5. Monitoring the recording of contributions and the recording and calculation of pension rights.
6. Monitoring the investment policy, return on investments and allocation of funds.
7. Monitoring the dependability and integrity of the reports, on which the board of directors, and managing director of the fund, as well as public authorities, depend on.
8. Monitoring the fund's information systems, with respect to their operational security, and to ensure that there are available at all times sufficient and comprehensive internal information on finances, operations and controls, as well as external information that affect decision-making.

Article 6

The results of internal control measures shall be put forward in writing and those results, as well as any related data, shall be stored in an organised manner.

Written suggestions for improvement in the operation of a pension fund, and flaws in internal control, are to be immediately delivered to the board and managing director of the fund or its management company. The management company shall inform the fund's board of directors on the suggestions according to the 1st sentence of this paragraph as soon as they are on hand.

At least once a year, the auditing department or the independent party shall report the main results of the internal control measures and whether suggestions for improvement have been implemented to the board of the pension fund or its management company in writing. The management company shall inform the fund's board of directors on the main result of the internal control measures and suggestions according to 1st sentence of this paragraph as soon as they are on hand.

Article 7

These Rules are adopted with reference to Article 35, paragraph 2, of Act no 129/1997 regarding mandatory insurance of pension rights and operations of pension funds and take effect forthwith. At the same time, Rules on the auditing departments and independent parties responsible for internal control of pension funds No. 546 of 7 September 1998, shall cease to apply.

Reykjavik, 10 September 2001

FJÁRMÁLAEFTIRLITIÐ
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