



PenCom

REVISED GUIDELINE ON CORPORATE GOVERNANCE FOR LICENSED PENSION FUND OPERATORS

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National Pension Commission

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List of Abbreviations

PRA, 2014	Pension Reform Act, 2014
CPS	Contributory Pension Scheme
Commission	National Pension Commission
PFA	Pension Fund Administrator
CPFA	Closed Pension Fund Administrator
PFC	Pension Fund Custodian
LPFOs	Licensed Pension Fund Operators
Board	Board of Directors
Chairman	Chairman Board of Directors
NED	Non-Executive Director
INED	Independent Non-Executive Director
MD/CEO	Managing Director/Chief Executive Officer
ED	Executive Director
CS	Company Secretary
NCCG	Nigerian Code of Corporate Governance

About this Guideline

This Revised Guideline on Corporate Governance for LPFOs is a set of principles based on best practices, intended to guide Pension Fund Administrators (PFAs), Closed Pension Fund Administrators (CPFAs), and Pension Fund Custodians (PFCs) on the structures and processes necessary to achieve optimal governance practices.

The Revised Guideline is *to be used in conjunction with* **the NCCG 2018**.

The requirements are consistent with the provisions of the PRA 2014, Rules, Regulations, Circulars and Guidelines issued by the Commission.

1.0 INTRODUCTION

The Revised Guideline will help the LPFO fulfill its governance responsibilities and promote greater corporate accountability. Therefore, the Guidelines aim to encourage LPFOs to adopt good corporate governance practices and high professional ethics within their organizations. The minimum corporate governance requirements are outlined; however, LPFOs are encouraged to strive for higher standards.

The Guideline consists of six broad areas:

- i. Board of Directors
- ii. Control Functions
- iii. Relationship with Shareholders
- iv. Ethics and Business Practice
- v. Sustainability
- vi. Transparency

The Board of the LPFOs shall be responsible for monitoring adherence to ensure that breaches are effectively sanctioned. This may be delegated to the Committee responsible for Nomination and Governance. Directors, top Management, and all other employees shall have an obligation, at all times, to comply with the provisions of the Guidelines on Corporate Governance for Licensed Pension Fund Operators in Nigeria.

1.1 Definition of Terms

- 1.1.1 **The Contributory Pension Scheme (CPS):** A pension scheme established for the payment of retirement benefits of contributors to whom the Scheme applies under the PRA 2014.
- 1.1.2 **National Pension Commission:** The regulatory authority on all pension matters in Nigeria, established under the PRA, 2014.
- 1.1.3 **Pension Fund Administrator (PFA):** A company licensed by the National Pension Commission with functional responsibilities as stipulated in Section 55 of the PRA, 2014.
- 1.1.4 **Closed Pension Fund Administrator (CPFA):** A company licensed by the National Pension Commission to exclusively manage the pension fund of a sponsoring company.
- 1.1.5 **Pension Fund Custodian (PFC):** A company licensed by the National Pension Commission to hold pension fund and assets in safe custody on trust for holders and beneficiaries of the Retirement Savings Account (RSA).
- 1.1.6 **Principal Owner:** individual or entity directly or indirectly holding 50% plus one share or more of the issued share capital.

1.2 Purpose of the Guideline

1.2.1 Essentially, the Guideline was developed to achieve the following:

- i. To institutionalize corporate governance best practices in LPFOs in Nigeria;
- ii. To promote awareness of essential corporate values and ethical practices in the Nigerian Pension Industry;
- iii. To show a clear delineation of roles, authority, and responsibilities among the Shareholders, Board, and Management of the LPFOs;
- iv. To better align the interests of the Board and Management with those of the Shareholders and other Stakeholders, especially the contributing members (RSA holders).

2.0 BOARD OF DIRECTORS

2.1 Role of the Board

Recommended Practices:

Recommended practices shall be as specified by *Principle 1 of NCCG 2018*, in addition to the following sector-specific provisions:

2.1.1 The Board shall ensure it acts in good faith when performing its duties and that its responsibilities are carried out impartially.

2.1.2 The Board shall exercise a degree of care and diligence in fulfilling its responsibilities.

2.1.3 The Board shall provide oversight and strategic direction of the LPFO by:

- i. Establishing the vision, mission, and values of the LPFO;
- ii. Developing annual plans of the Board;
- iii. Setting long-term and short-term strategies to guide the LPFO;
- iv. Establishing policies for governing the LPFO;
- v. Appointing NEDs and INEDs;
- vi. Appointing the MD/CEO, EDs, and Senior Management (including Heads of Departments), to oversee the day-to-day operations of the LPFO;
- vii. Developing the Contract of Employment of the MD/CEO and the EDs, which shall include Terms of Reference (ToR), Tenure and Remuneration;
- viii. Ensuring that the Board and its Committees comprise members with relevant skills, experience, and competencies;
- ix. Establishing agreed performance targets for Executive Management;

- x. Monitoring and evaluating the performance of Executive Management;
 - xi. Reporting to Shareholders at Annual General Meetings;
 - xii. Overseeing the effectiveness and adequacy of the Compliance, Internal Audit & Control, and Risk Management functions;
 - xiii. Appointing the Company Secretary, developing his/her ToR and ensuring that the person appointed is able to provide independent professional advice to the Board and Management;
 - xiv. Promoting and overseeing the highest standards of corporate governance within the Board and the LPFOs;
 - xv. Establishing a succession plan, appointment process, induction and ongoing training program, and compensation structure for both the Board and Executive Management (Executive Directors, Non-Executive Directors, and Independent Non-Executive Directors);
 - xvi. Developing the Charter and ToR for Management Committees of the LPFOs; and
 - xvii. Ensuring compliance with the laws of the Federal Republic of Nigeria and subsidiary legislations issued by the Commission.
- 2.1.4 Directors should undertake diligent analysis of all proposals placed before the Board and act with the level of skill expected from them.
- 2.1.5 Directors should not make improper or prejudicial use of information acquired as Directors and should not disclose non-public information except where disclosure is authorized or legally mandated.
- 2.1.6 Directors should not take advantage of their position as Directors for personal gain or to compete with the LPFOs.
- 2.1.7 Directors should not engage in conduct likely to discredit the LPFOs, and should encourage fair dealings by all employees with the LPFO's stakeholders.

2.2 Board Composition and Structure

Recommended Practices:

Recommended practices shall be as specified by *Principle 2 of NCCG 2018*, in addition to the following sector-specific provisions:

- 2.2.1 Members of the Board of Directors of LPFOs shall be appointed by the Board, approved by the Shareholders, and the Commission.
- 2.2.2 The Board shall develop a policy and criteria for the selection and appointment of Directors.
- 2.2.3 The Board shall constitute a Nomination and Governance Committee to make recommendations to the Board on all Board and Senior Management appointments.
- 2.2.4 A person who is not a serving director of the LPFOs should not exercise any influence on the decision-making of the Board or Management of the LPFOs.
- 2.2.5 The Board shall develop a policy for the onboarding and orientation of new Directors to the Board.
- 2.2.6 The Board shall set measurable objectives and policies to promote board diversity, including but not limited to gender, age, experience, culture, and professional background.
- 2.2.7 The Board shall ensure that at least three (3) members or 30% of the Board are independent whichever is higher.

2.3 Officers of the Board

2.3.1 The Chairman of the Board

Recommended Practices:

Recommended practices shall be as specified by *Principle 3 of NCCG 2018*, in addition to the following sector-specific provisions:

- 2.3.1.1 The MD/CEO or any ED shall only be appointed to the position of Chairman or NED of the LPFOs in exceptional circumstances and after a cooling-off period of at least three years.
- 2.3.1.2 The Chairman shall hold meetings with the NED without the Executive present at least once annually and on such other occasions as deemed appropriate.
- 2.3.1.3 The Chairman's responsibilities include:
- i. Acting in the best interest of the LPFOs, and in accordance with the position;
 - ii. Taking an active role in reviewing and approving policies for major initiatives and activities of the LPFOs;
 - iii. Promoting a culture of openness and debate among the Directors; and
 - iv. Facilitating effective contribution and constructive relations between the EDs and NEDs.

2.3.2 The Managing Director/ Chief Executive Officer

Recommended Practices:

Recommended practices shall be as specified by *Principle 4 of NCCG 2018*, in addition to the following sector-specific provisions:

- 2.3.2.1 The functions and responsibilities of the MD/CEO shall include:
- i. Ensuring that the Management team is effective and operates in a cohesive manner, and all Senior Management focus on their key responsibilities; and
 - ii. Ensuring effective communication with all stakeholders.
- 2.3.2.2 The MD/CEO provides overall leadership for the Management team.

2.3.3 Executive Director

Recommended Practices:

Recommended practices shall be as specified by *Principle 5 of NCCG 2018*, in addition to the following sector-specific provisions:

2.3.3.1 The EDs' responsibilities shall include:

- i. Supporting the MD/CEO in the day-to-day running of the affairs of the LPFOs, implementation of its strategic initiatives and policies, as well as prudent management of the LPFO's resources;
- ii. Promoting and protecting the interests of the LPFOs;
- iii. Contributing to the development of the LPFO's strategies and policies; and
- iv. Supporting the MD/CEO in ensuring that Management provides the Directors with accurate and timely information.

2.3.4 Non-Executive Directors

Recommended Practices:

Recommended practices shall be as specified by *Principle 6 of NCCG 2018*, in addition to the following sector-specific provisions:

2.3.4.1 NEDs shall not nominate alternate Directors to represent them at Board and Board Committee Meetings.

2.3.4.2 The responsibilities of the NEDs shall include:

- i. Contributing to the agenda and deliberations of the Board, Board Committees and Annual General Meetings (AGMs); and

- ii. Ensuring that they attend all Board and Board Committee Meetings (as applicable).

2.3.5 Independent Non-Executive Director

Recommended Practices:

Recommended practices shall be as specified by *Principle 7 of NCCG 2018*, in addition to the following sector-specific provisions:

2.3.5.1 An INED is one who:

- i. Does not possess a shareholding in the LPFOs, its related or associated LPFOs;
- ii. Has not been an employee and/or executive management of the LPFOs, its parent, related or associated company;
- iii. Does not have an immediate family member (i.e. spouse, child, adopted child, step-child, brother, sister, or parent) who is, or has been employed by the LPFOs or any of its related LPFOs within the last three (3) years;
- iv. Has not received any compensation or remuneration from the LPFO or its parent company for the past five (5) financial years, apart from Director's fees and allowances;
- v. Is not a substantial shareholder, partner or executive officer of any profit-making organization to which the LPFOs made, or from which the LPFOs received significant payments, in the past five (5) financial years;
- vi. Has not served on the Board for more than nine years from the date of his first election; and
- vii. Has not been appointed to represent the interests of some shareholders.

2.3.5.2 The LPFOs shall not reclassify an existing NED into an INED on the same Board.

2.3.5.3 The Board shall put in place procedures to annually ascertain and confirm the continued independence of each INED of the Company.

2.3.5.4 The responsibilities of the INEDs shall include:

- i. Providing the Board with an independent opinion;
- ii. Ensuring that they attend all Board and Board Committee Meetings (as applicable); and
- iii. Ensuring and advising on the maintenance of corporate governance at all times.

2.3.6 Company Secretary

Recommended Practices:

Recommended practices shall be as specified by *Principle 8 of NCCG 2018*, in addition to the following sector-specific provisions:

2.3.6.1 The responsibilities of the CS shall include:

- i. Assisting the Chairman and MD/CEO in coordinating activities regarding the Board and Board Committees; and
- ii. Ensuring good information flow within the Board, its Committees, and Senior Management.

2.4 Access to Independent Advice

Recommended Practices:

Recommended practices shall be as specified by Principle 9 of NCCG 2018.

2.5 Board Meetings

Recommended Practices:

Recommended practices shall be as specified by *Principle 10 of NCCG 2018*, in addition to the following sector-specific provisions:

- 2.5.1 Written notices, including an agenda of the meeting, shall be circulated before the meeting, except in the circumstance of emergency meetings, where the notice period may be reduced or waived.
- 2.5.2 Every Director shall endeavor to attend all Board and Board Committee meetings in which he/she is a member. Any Director who does not attend at least 50% of all Board and Board Committee meetings during his/her tenure, except in special circumstances, shall not qualify for consideration for re-election.
- 2.5.3 The quorum for Board meetings shall be clearly specified in the Memorandum and Articles of Association as well as the Board Charter of the LPFO.
- 2.5.4 The Board shall establish a policy to govern the conduct of virtual meetings in line with the Framework for Virtual Meetings by LPFOs. The Board and its Committees shall hold a minimum of one in-person meeting per calendar year, with each Board member attending a minimum of one in-person meeting in addition to the virtual meetings.

2.6 Board Committees

Recommended Practices:

Recommended practices shall be as specified by *Principle 11 of NCCG 2018*, in addition to the following sector-specific provisions:

- 2.6.1 The Board shall establish structured Committees, which shall include Investment Strategy, Risk Management, Nomination & Governance, and Audit Committees. However, the establishment of the Investment Strategy Committee shall not be applicable to Custody business.
- 2.6.2 The Board shall ensure that each Committee comprises Directors with relevant skills and competencies.
- 2.6.3 Membership of each Committee shall comprise at least three Directors.
- 2.6.4 The Board shall review the performance of the Committees annually.

2.7 Nomination and Governance Committee:

2.7.1 The Chairman of the Nomination and Governance Committee shall be an INED and members should be NEDs.

2.7.2 Members of the Committee responsible for Nomination and Governance, shall also be responsible for Remuneration function, as highlighted under Section 11.3 of NCCG 2018.

2.7.3 The Committee shall meet at least once every quarter.

2.7.4 The Nomination and Governance Committee's responsibilities shall include:

- i. Ensuring the existence and implementation of a Succession Policy for the Chairman, MD/CEO, EDs, and NEDs as well as INEDs;
- ii. Reviewing prospective candidates' qualifications and any potential conflict of interest, assessing the contributions of current Directors against their re-nomination suitability, and making appropriate recommendations to the Board;
- iii. Review the structure, size, and composition of the Board at least annually and make recommendations on any proposed changes.

2.8 Audit Committee:

2.8.1 The members of the Audit Committee should be NEDs and majority should be INEDs where possible.

2.8.2 The responsibilities of the Audit Committee shall include:

- i. Reviewing controls over financial reporting, information technology security and operational matters;
- ii. Assessing the qualifications, independence, and performance of the LPFO's internal and external auditors;

- iii. Obtaining appropriate external assurance and reporting on the design and operating effectiveness of the LPFO's internal controls in its annual audited financial report; and
- iv. Ensuring that the scope of the audit plan is appropriate, risk-based, and addresses major areas of concern, and that the audit plan is reviewed within an appropriate frequency.

2.8.3 The Audit Committee shall have unrestricted access to the financial records of the LPFOs, including external auditors' reports.

2.9 Risk Management Committee:

2.9.1 The Chairman of the Risk Management Committee shall be an INED and members of the Committee shall include Executives and NEDs.

2.9.2 The responsibilities of the Risk Management Committee shall include:

- i. Determining the risk profile of the investment portfolios of the Pension Fund Administrator and Closed Pension Fund Administrator;
- ii. Identifying, assessing, and recommending to the Board acceptable levels of Risk;
- iii. Drawing up programmes of adjustments in the case of deviation;
- iv. Determining the level of reserves to cover the risks of the investment portfolios;
- v. Advising the Board on Risk Strategies as well as reviewing and recommending the risk management policy and framework for the approval of the Board; and
- vi. Ensuring that risk awareness culture is maintained throughout the LPFOs.

2.9.2 The Board shall have at least one member having joint membership of both the Risk Management and Audit Committees for more effective functioning;

- 2.9.3 The Committee shall render a report of its activities to the LPFO's Board and the Commission, at least once every quarter.

2.10 Investment Strategy Committee

- 2.10.1 The Chairman of the Investment Strategy Committee shall be an INED and members of the Committee shall include Executives and NEDs

- 2.10.2 The functions and responsibilities of the Investment Strategy Committee shall include:

- i. Formulating investment strategies for the approval of the Board in line with Investment Regulations issued by the Commission. The strategy shall include a set of assumptions about the LPFO's risk tolerance and the portfolios' expected returns.
- ii. Monitoring and overseeing the implementation of the investment strategy;
- iii. Establishing investment objectives and policies;
- iv. Determining an optimal investment mix consistent with the risk profile agreed by the Board of the LPFOs;
- v. Setting performance targets for the various pension funds under management;
- vi. Evaluating the value of the daily marked-to-market portfolios and making proposals to the Board of the LPFOs;
- vii. Reviewing the performance of the major securities of the investment portfolios of the LPFOs with the relevant benchmarks on periodic basis;
- viii. Defining roles and responsibilities for Management, including approval and authorization limits;

- ix. Reviewing the level of the LPFO's compliance with applicable investment laws and guidelines issued by the Commission;
- x. Ensuring due diligence in the selection and approval of investments; and
- xi. Periodically reviewing Investment policies and procedures.

2.10.2 The person charged with the responsibility for Investment Management shall be a member of Senior Management of the LPFOs, with relevant professional qualifications and experience, and shall be in attendance at meetings of the Committee; and

2.11 Appointment to the Board

Recommended Practices:

Recommended practices shall be as specified by *Principle 12 of NCCG 2018*, in addition to the following sector-specific provisions:

- 2.11.1 The tenure for the MD/CEO and the EDs shall be determined by the Board but shall not exceed the maximum tenure provided in these Guidelines.
- 2.11.2 To resign, Directors shall submit a written notice of resignation addressed to the Chairman and the Commission.
- 2.11.3 Where a Director has concerns about the running of the LPFOs, which cannot be resolved and he elects to resign from the Board, such concerns shall be detailed in a written statement to the Chairman for circulation to the Board, with a copy to the Commission.

2.12 Induction and Training of Directors

Recommended Practices:

Recommended practices shall be as specified by *Principle 13 of NCCG 2018*, in addition to the following sector-specific provisions:

- 2.12.1 The Induction programme shall include:

- i. The LPFO's strategic objectives, products, and services;
- ii. The LPFO's Memorandum and Articles of Association, Board procedures and matters reserved for the Board;
- iii. The LPFO's significant risks and risk management strategies;
- iv. Key performance indicators; and
- v. Regulatory requirements.

2.13 Board Evaluation

Recommended Practices:

Recommended practices shall be as specified by *Principle 14 of NCCG 2018*, in addition to the following sector-specific provisions:

- 2.13.1 The Individual Evaluation shall aim to show the contributions of each Director to the Board, including time committed to Board and Board Committee meetings.
- 2.13.2 To bring objectivity to the process, the Board may consider the use of an external third party to conduct the evaluation.
- 2.13.3 Where the use of an external third party is not desirable, the LPFOs may decide to design and institute its own internal board review and evaluation process, and the following shall apply:
 - i. The Nomination and Governance Committee shall be responsible for evaluating performance;
 - ii. The NEDs, led by the INED, shall be responsible for the performance evaluation of the Chairman, taking into account the views of the EDs;
 - iii. The Chairman and the NEDs shall be responsible for the evaluation of EDs;
 - iv. The Chairman and the EDs shall be responsible for the evaluation of NEDs; and

- v. Details of such processes shall be forwarded to the Commission for prior approval.
 - vi. The Board shall appoint an independent external consultant to conduct an annual evaluation of its own performance, that of its Committees, the Chairman and individual Directors, at least once in two (2) years.
- 2.13.4 The Board shall act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the Board and its Committees.
- 2.14.5 The LPFOs shall attach the outcome of the annual evaluation of the Board, Board Committees and Directors to its Corporate Governance Report and forward same to the Commission highlighted under 2.10.1.

2.14 Corporate Governance Evaluation

Recommended Practices:

Recommended practices shall be as specified by *Principle 15 of NCCG 2018*, in addition to the following sector specific provisions:

- 2.14.1 The annual Corporate Governance Evaluation Report shall also be forwarded to the Commission not later than three months after the LPFO's financial year-end.
- 2.14.2 The Corporate Governance Report should include:
- i. A description of Corporate Governance practices instituted in the LPFOs within the reporting year;
 - ii. Disclosures of any deviation from the Corporate Governance Guidelines
 - iii. Delegation of authority by the Board to any Board Committee to make decisions on any Board matters;
 - iv. The number of Board meetings held in the year and the attendance of every Board member at the meetings;

- v. The number of Board Committee meetings held in the year and the attendance of every Board Committee member at the meetings;
- vi. The terms of reference of all Board Committees;
- vii. The type of material transactions that require Board approval under the LPFO's internal Guidelines;
- viii. The relationship between the MD/CEO and the Chairman where they are related (spouse, child, step-child, brother, sister or parent);
- ix. The process for selection and appointment of new Directors to the Board;
- x. Key information regarding the Directors, i.e., which Directors are Executive, Non-Executive or considered by the Nomination and Governance Committee to be independent;
- xi. The process of assessing the effectiveness of the Board as a whole and the contribution of each individual Director to the effectiveness of the Board;
- xii. Composition of the Board Committees and details of their activities;
- xiii. The adequacy of internal controls, including financial, operational and compliance controls as well as risk management systems; and
- xiv. How the performance evaluation of the Board, its Committees and its Directors was conducted.

2.15 Tenure and Re-Election

Recommended Practices:

- 2.15.1 The tenure for the MD/CEO and the EDs in the Pension Industry shall not exceed a maximum of ten years (10) years.
- 2.15.2 The tenure for an ED who proceeds to be MD/CEO shall not exceed a maximum of 15 years cumulatively, inclusive of the years spent as ED.
- 2.15.3 Where an individual has served as an ED and subsequently as an MD/CEO in the same LPFO for a combined tenure of up to fifteen (15) years, such an individual shall be eligible to serve as MD/CEO or ED in

another LPFO, subject to a maximum tenure of five years after a cooling off period of 3 years.

- 2.15.4 NEDs shall serve for a maximum period of fifteen (15) years on the Board. However, it is necessary to reinforce the Board by continually injecting new energy, fresh ideas, and perspectives. The Board should ensure the periodic appointment of new Directors to replace existing NEDs.
- 2.15.5 INEDs shall not serve on the Board for more than a maximum of 9 (nine) years, comprising three terms of three years each.
- 2.15.6 No NED may serve as the MD/CEO of the same LPFO after his/her tenure ends. However, the NED may serve as MD/CEO or ED of another LPFO subject to a maximum tenure of five years, after a cooling-off period of three years.
- 2.15.7 No INED can become the MD/CEO or ED of the same LPFO upon expiration of his/her tenure, however the INED may serve as MD/CEO or ED of another LPFO after a cooling-off period of three years.
- 2.15.8 To ensure continued innovation and prevent entrenchment, the tenure of an MD/CEO or ED who has completed his/her tenure in a LPFO may subsequently serve as a NED in another LPFO subject to a maximum tenure of five years after a cooling off period of 3 years.
- 2.15.9 Notwithstanding Section 2.15.4, a Principal Owner may continue to serve on the Board as a NED beyond the regulatory tenure limit, subject to the following conditions:
 - i No LPFO Board shall have more than one (1) Principal Owner serving concurrently as NED.
 - ii Such a Director shall not hold executive, operational, or management positions and shall not be classified or represented as an INED within the LPFO.
 - iii Continuation of tenure of Principal Owners shall be subject to:
 - a Re-election by shareholders every three (3) years at Annual General Meetings;
 - b Annual internal performance evaluation by the Board;
 - c Annual suitability review by the Nomination and Governance Committee

- iv An external evaluation focused specifically on Principal Owners shall be conducted every three (3) years by a reputable advisory firm appointed by the LPFO and approved by the Commission.
- v A detailed report and recommendations from the evaluation shall be submitted directly to the Commission by the advisory firm for review and shall form the basis for the Commission's approval on the continuation of the tenure of the Principal Owner.
- vi Principal Owners serving under this exemption shall not chair the following board committees:
 - Audit Committee
 - Risk Management Committee
 - Nomination and Governance Committee
 - Remuneration Committee
- vii The Commission retains explicit authority and discretion to review, condition, restrict, or terminate the tenure exemption of any Principal Owner serving as a NED, should governance concerns, regulatory non-compliance, performance deficiencies, or ethical breaches arise.

2.16 Remuneration Governance

Recommended Practices:

Recommended practices shall be as specified by *Principle 16 of NCCG 2018*, in addition to the following sector specific provisions:

- 2.16.1 The Board should carefully consider compensation commitments to Directors in the event of early termination.
- 2.16.2 The Commission shall approve all new long-term incentive schemes for Directors.
- 2.16.3 The Director's letter of Appointment shall include remuneration package and method of remuneration.
- 2.16.4 Where performance related elements is considered in remuneration of the EDs, it should be transparent, stretching and rigorously applied without bias, and care must be taken to prevent excessive risk taking.

- 2.16.5 The Board may consider industry peer comparison or other benchmark for developing the Director's remuneration. However, such comparisons should be used with caution, to avoid paying more than necessary and the risk of upward notch in remuneration levels without corresponding improvement in corporate and individual performance.
- 2.16.6 Remuneration structure should reflect the level of work expected of the EDs and NEDs and shall be in a manner that is consistent with appropriate incentives.
- 2.16.7 The Board should include provisions that specify the circumstances where the LPFOs would recover money paid or withhold payment of money to both Executive and Non-Executive Directors, and when it will be appropriate to do so.

3.0 CONTROL FUNCTIONS

3.1 Risk Management

Recommended Practices:

Recommended practices shall be as specified by *Principle 17 of NCCG 2018*, in addition to the following sector-specific provisions:

The Board should:

- 3.1.1 Ensure that the risk management framework reflects the risk profile and appetite of the LPFOs, clearly defining all risk elements and processes to identify and manage risks;
- 3.1.2 Ensure periodic review of the implementation of the risk management framework;
- 3.1.3 Re-evaluate the risk management process on a periodic basis to accommodate major changes; and
- 3.1.4 The Head, Risk Management shall report administratively to the MD/CEO, and he/she shall have a functional reporting line to the Board Risk Management Committee.

3.2 Compliance

Recommended Practices:

- 3.2.1 The Board shall have the primary responsibility for the compliance function, as it shall oversee the management of the LPFO's compliance risk.
- 3.2.2 The Board shall approve the compliance policy of the LPFOs and actively promote the values of honesty and integrity throughout the LPFOs.
- 3.2.3 The Board shall approve the appointment and if necessary dismiss a Compliance Officer subject to the approval of the Commission. In addition, the redeployment of a Compliance Officer shall be subject to the Commission's approval.
- 3.2.4 At least once a year, the Board or a Committee of the Board shall identify and assess the extent to which the Operator is managing its compliance risks.
- 3.2.5 The LPFOs shall employ a Compliance Officer whose responsibilities shall include:
- 3.2.6 Ensuring compliance with the provisions of the PRA 2014, Guidelines, Rules and Regulations issued by the Commission as well as internal policies of the LPFOs;
- 3.2.7 Having relevant professional and cognate experience;
- 3.2.8 Reporting to the MD/CEO of the LPFOs and the Commission on any noncompliance by the LPFOs; and
- 3.2.9 Liaising with the Commission with regard to any matter which, in the opinion of the Commission, will enhance the compliance of the LPFOs with the provisions of the PRA 2014, Guidelines, Rules and Regulations issued by the Commission.

- 3.2.10 The Regulation for Compliance Officers issued by the Commission remains valid and operational, as part of the practices of the Compliance function.

3.3 Internal Audit

Recommended Practices:

Recommended practices shall be as specified by *Principle 18 of NCCG 2018*, in addition to the following sector-specific provisions:

- 3.3.1 The Board shall articulate, implement and review the LPFO's internal control systems to strengthen the risk management framework.
- 3.3.2 The Board shall approve the appointment of the Head of the Internal Audit function, subject to the approval of the Commission. The Board reserves the right to dismiss the Head of the Internal Audit function, based on the recommendation of the Board Audit Committee.
- 3.3.3 The Internal Audit function shall not be outsourced.
- 3.3.4 The Board shall appoint a qualified independent reviewer to conduct an external assessment of the effectiveness of the internal audit function at least once every three years.

3.4 Whistle Blowing

Recommended Practices:

Recommended practices shall be as specified by *Principle 19 of NCCG 2018*, in addition to the following sector-specific provisions:

- 3.4.1 The Board shall establish an effective whistle-blowing mechanism that encourages stakeholders to report unethical conduct, legal violations, and regulatory breaches to an internal authority and/or the Commission, in accordance with the Revised Whistle-blowing Guidelines for LPFOs. This will ensure that the organization can verify the allegations and take appropriate

sanctions or remedial actions to address any harm. The mechanism should be well known to both employees and external stakeholders.

- 3.4.2 The Board shall ensure that no whistle-blower is subject to any detriment on the grounds that he/her has made a disclosure in good faith. Where a whistleblower has been subjected to any detriment, he/she may present a complaint to the Commission. A whistle-blower who has suffered any detriment by reason of disclosure may be entitled to compensation and/or reinstatement as prescribed by the Commission.

3.5 External Auditors

Recommended Practices:

Recommended practices shall be as specified by *Principle 20 of NCCG 2018*, in addition to the following sector-specific provisions:

- 3.5.1 The Board shall engage a qualified External Auditor(s) and re-appoint or remove the Auditor based on the recommendation of the Board Audit Committee, which shall be responsible for the external audit function of the LPFOs.
- 3.5.2 There shall be a cooling-off period of three years before an LPFO can engage any member of the audit team as a staff member in the financial reporting function.
- 3.5.3 Where the Board is satisfied that the External Auditor has abused its office, acted in a fraudulent manner or colluded in any fraud or for any other reason, the Board may recommend the removal of such External Auditor in accordance with the provisions of extant laws, and a notice of the recommendation be forwarded to the Commission within 14 days.
- 3.5.4 Where the Commission is satisfied that the External Auditor of the LPFOs has abused its office as an auditor, it may require the LPFOs to remove such External Auditor in line with the provisions of the extant laws.
- 3.5.5 The External Auditor shall be responsible to the Commission for the protection of pension funds and assets managed or held by the LPFOs it is auditing and shall report to the Commission on the following:
- i. Any extreme situation such as evidence of imminent financial collapse of the LPFOs; and

- ii. Any evidence of any event or occurrence, which has led or is likely to lead to material diminishing, of the net assets of the fund or the LPFOs or both.

3.5.6 The Board shall send copies of the audited financial report to the Commission for approval, along with the External Auditor's management letter on the audit of the fund and LPFO, no later than four months after the LPFO's/Fund's financial year-end.

4.0 RELATIONSHIP WITH SHAREHOLDERS

4.1 General Meetings

Recommended Practices:

Recommended practices shall be as specified by *Principle 21 of NCCG 2018*, in addition to the following sector-specific provisions:

- 4.1.1 The meeting venue should be selected with consideration for shareholders with special disabilities.
- 4.1.2 Notices of General Meetings shall be at least 21 days from the date on which the meeting is scheduled to hold. Copies of the Annual Reports, Audited Financial Statements and all other related documents pertaining to any resolution to be voted upon should be dispatched along with the notice of the meeting. This includes voting or proxy instructions and relevant papers that will enable stakeholders prepare adequately for the meeting.
- 4.1.3 The Board of LPFOs shall ensure the existence of an executed Shareholder's Agreement that, among other things, highlights the rules for share transactions as well as rights and obligations of all shareholders.

4.2 Shareholder Engagement

Recommended Practices

Recommended practices shall be as specified by *Principle 22 of NCCG 2018*.

4.3 Protection of Shareholder Rights

Recommended Practices

Recommended practices shall be as specified by *Principle 23 of NCCG 2018*.

5.0 ETHICS AND BUSINESS PRACTICES

5.1 Conflict of Interest

Recommended Practices:

Recommended practices shall be as specified by *Principle 24 of NCCG 2018*, in addition to the following sector specific provisions:

- 5.1.1 A relationship between a LPFOs (PFA, CPFA, & PFC) and a third party service provider is deemed to exist where:
 - i. The LPFOs and the service providers, which it appoints, have common ownership or directorship, no matter how insignificant; and
 - ii. An immediate family member (i.e. spouse, child, adopted child, stepchild, brother, sister or parent) of a shareholder or director of a LPFOs is a shareholder or director of a service provider, which it appoints.
- 5.1.2 LPFOs shall engage service providers that have a relationship with it on an arm's length basis and customary disclosures shall be made in their audited financial statements.
- 5.1.3 Where the PFA decides to invest pension funds in a Company whose registrar is related (i.e. shareholder, subsidiary or associate) to either the PFA or the PFC which the PFA appoints, the PFA shall disclose such relationship to the Commission. In such circumstance, the Commission reserves the right to allow or disallow such investment.
- 5.1.4 A relationship between a PFA and a PFC is deemed to exist in situations where:
 - i. Any director in a PFA is an employee, principal officer or shareholder in a PFC that the PFA appoints to carry on any form of business on its behalf, in its subsidiary, associated LPFOs, or its parent company;
 - ii. Any director in a PFA that is a director on the Board of a PFC, and vice versa, that the LPFOs appoints to carry on any form of business on its behalf, or is on the Board of its subsidiary or associated LPFOs; and

- 5.1.5 The PFA shall not have any relationship with the PFC with which it chooses to do business.
- 5.1.6 To avoid potential conflict of interest, where applicable, LPFOs employees shall declare their marital relation with employees of the Commission, and vice versa, immediately such relationships arise. Actions following disclosure shall be subject to the Commission's Conflict of Interest Policy.
- 5.1.7 Employees shall at the earliest opportunity bring to the notice of their employers, in all cases, whereby conflict of interest arises in the discharge of their duties to the LPFOs.
- 5.1.8 Directors should promptly disclose any real or potential conflict of interest that they may have by virtue of their membership of the Board.
- 5.1.9 If a Director is not certain whether he is in a conflict of interest situation, the Director concerned should discuss the matter with the Chairman of the Board, the Company Secretary or the Chairman of the committee responsible for nomination and governance for advice and guidance.
- 5.1.10 If any question arises before the Board as to the existence of a real or perceived conflict, the Board or any Director, should report to the Commission to determine if a conflict exists.
- 5.1.11 Directors who are aware of a real, potential or perceived conflict of interest on the part of a fellow Director, have a responsibility to raise the issue promptly for clarification, either with the Director concerned, the Chairman of the Board or the Chairman of the committee responsible for nomination and governance.
- 5.1.12 If a Director becomes aware of any potential conflict of interest at any other point, he/she should disclose this to the Board, and the LPFOs should report to the Commission at the earliest possible opportunity.
- 5.1.13 No person who has served at the directorate level or above, leaving the services of the Commission, for any reason, should be appointed as a Director or top management staff of an LPFO until after three years of the disengagement of such Executive or Senior Management staff.
- 5.1.14 Employees shall do all in their power to ensure their impartiality and independence and avoid all situations that could result in a conflict of

interest or be perceived as such. They should not use their position for the private gain of their spouse, children, or any other person.

5.2 Ethical Culture

Recommended Practices:

Recommended practices shall be as specified by *Principle 25 of NCCG 2018*, in addition to the following sector-specific provisions:

- 5.2.1 LPFOs shall work in a spirit of respectful collaboration and co-operation with those with whom they interact without compromising their personal or professional integrity.
- 5.2.2 LPFOs shall at all times, act honestly and in such manner that third parties are not caused to be misled. They shall not in the course of discharging their professional duties knowingly or recklessly disseminate false or misleading information to third parties.
- 5.2.3 LPFOs shall not engage in any conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that would negatively impact on the Pension industry.
- 5.2.4 LPFOs shall not undermine other LPFOs' stability in the process of marketing, so that competition is made healthy. LPFOs shall not reveal information about other LPFOs without their permission and shall take reasonable precautions to avoid such information from being disclosed unintentionally.
- 5.2.5 Employees shall avoid directly or indirectly accepting or giving any gift, gratification, or anything of monetary value for anything done or omitted to be done during the discharge of their duties.
- 5.2.6 LPFOs shall be transparent in all their dealings except in cases where the needs of business security dictate otherwise and shall hold themselves accountable to the appropriate authority/body.
- 5.2.7 LPFOs shall never disclose in their writings, reports, social media posts or otherwise make public, any information they have acquired about persons, employers or clients in the course of their professional work, unless disclosure is both legal and that they have either taken reasonable steps to

disguise the identity of the person, employer or client, or they have the express permission to disclose.

- 5.2.8 Transactions must be recorded promptly and accurately in order to permit the preparation of accurate financial and other records. Records shall not be falsified in any manner. No entry shall be made that intentionally hides or disguises the true nature of any transaction.
- 5.2.9 Employees shall act honestly, in good faith and in the best interests of the LPFOs in accordance with legal requirements and agreed ethical standards.
- 5.2.10 Employees owe a fiduciary duty to the LPFOs, and have a duty of care, skill, diligence and loyalty in fulfilling the functions of their offices and exercising the powers attached to those offices.
- 5.2.11 LPFOs should encourage the reporting of unlawful or unethical behaviour and actively promote ethical behaviour and the protection of those who report violations in good faith.

6.0 SUSTAINABILITY

Recommended Practices:

Recommended practices shall be as specified by *Principle 26 of NCCG 2018*.

7.0 TRANSPARENCY

7.1 Stakeholder Communication

Recommended Practices:

Recommended practices shall be as specified by *Principle 27 of NCCG 2018*.

7.2 Disclosure

Recommended Practices:

Recommended practices shall be as specified by *Principle 28 of NCCG 2018*, in addition to the following sector-specific provisions:

- 7.2.1 The LPFOs shall submit to the Commission an annual report on both the company operations and pension funds being managed by it, and the report shall include the audited accounts, not later than four months after its financial year end.
- 7.2.2 The report shall include a description of corporate governance practices instituted in the LPFOs within the reporting year and shall also disclose and explain any deviation from any provision of this Guideline.

8.0 EFFECTIVE DATE

- 8.1 The provisions of this Revised Guideline shall be deemed effective as of the date of issuance and shall apply retroactively.
- 8.2 A transition window of twelve (12) months from the date of issuance of this Guideline is hereby granted for implementation of the requirements of Sections 2.2.7, 2.7.1, 2.10.1 and 2.15.9
- 8.3 This Revised Guideline supersedes all previous Guidelines and Circulars issued by the Commission. All LPFOs must adhere diligently to these updated provisions.

9.0 SANCTIONS

- 9.1 Appropriate administrative penalties shall be imposed for violation of these Guidelines in line with the Commission's Framework for Regime of Sanctions and Penalties.

10.0 REVIEW AND ENQUIRIES

This Guideline shall be subject to review by the Commission from time to time as needed.

All enquiries regarding these Guidelines shall be directed to:

The Director General

National Pension Commission

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