

## **THE STANDARD OF PRACTICE FOR RETIREMENT PLAN SERVICE PROVIDERS**

This document contains the practices that are used to assess the qualification of recordkeeping and/or administration firms for the American Society of Pension Professionals & Actuaries ("ASPPA") Service Provider Certification program. The purpose of the certification program is to identify for investors and the public at large, those firms that are part of ASPPA's initiative to promote self-regulation within the industry.

The practices form a uniform standard of excellence for firms providing various levels of recordkeeping and/or plan administration services. They were developed by the ASPPA Certification Task Force which was established in April, 2007. The Task Force included senior executives from recordkeeping and administration firms representing a broad range of business types and size.

The program uses 2 registration types as follows:

### **Recordkeeping Services Certification**

Bookkeeping for retirement plans' trading transactions and individuals' accounts (the major activity in recordkeeping).

### **Administration Services Certification**

Administrative functions including compliance testing against relevant pension and tax laws and filing of government reports such as Form 5500.

The Standard of Practice presumes that recordkeeping and administration firms are not considered fiduciaries, however they provide services to fiduciaries and their plan participants. These firms help fiduciaries meet their fiduciary obligations. ASPPA-certified recordkeepers and administrators provide increased assurance to fiduciaries that the industry's best practices are in place.

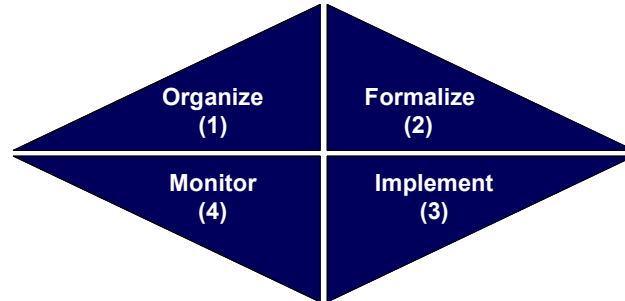
## The Format

The Standard is comprised of seventeen Practices, which are intended to provide the foundation and framework for a disciplined recordkeeping and administration process. Two of the Practices, 3.1 and 3.2 are not applicable to firms registered only for Administration Services.

The Practices are organized under a four-step Management Process, which is used in the Global Fiduciary Standard of Excellence for Investment Fiduciaries<sup>1</sup>. The steps are analogous to the global ISO 9000 Quality Management System standard, which emphasizes continual improvement to a decision-making process:

### *TRADITIONAL FOUR-PART QUALITY MANAGEMENT SYSTEM*

(Analogous to the ISO 9000 QMS Continual Improvement Process)



#### **Step 1: Organize**

(Practices that begin with 1.)

#### **Step 2: Formalize**

(Practices that begin with 2.)

#### **Step 3: Implement**

(Practices that begin with 3.)

#### **Step 4: Monitor**

(Practices that begin with 4.)

For each Practice, one or more *Criteria* are provided to describe the Practice, and to help define the details of how the Practice is assessed for conformity.

The Task Force welcomes comments and suggestions. Please contact Carlos Panksep at 416-693-9733.

<sup>1</sup> Available at [www.cefex.org](http://www.cefex.org). Fiduciary Handbooks are published by Fiduciary360.

## **ORGANIZE**

### **Practice 1.1: Senior management demonstrates expertise in its field, and there is a clear succession plan in place.**

#### Practice Criteria

- 1.1.1** The organization has the depth of experienced management to mitigate key man risk.
- 1.1.2** There is a defined succession plan for senior management to deal with sudden, unexpected disruption.
- 1.1.3** The recruiting process for senior management includes proper background checks and active involvement by external management.

### **Practice 1.2: There are clear lines of authority and accountability, and the mission, operations, and resources operate in a coherent manner.**

#### Practice Criteria

- 1.2.1** There is a well-defined mission statement for the organization as a whole that is communicated to all levels of personnel.
- 1.2.2** There is a focus and coherence to the organization.
- 1.2.3** Significant organizational changes are reported to clients on a timely basis.
- 1.2.4** There is a disciplined performance review process.
- 1.2.5** The roles and responsibilities of all parties are defined, and documented.

### **Practice 1.3: The organization has the capacity to service its client base.**

#### Practice Criteria

- 1.3.1** The organization has a suitable distribution and support structure (physical locations and staff) for each type of client.
- 1.3.2** The organization provides timely and appropriate communications with clients.
- 1.3.3** The organization monitors and manages the concentration of individual clients and client types.
- 1.3.4** The organization can demonstrate that it has the capability to process instructions in accordance with its service contracts.
- 1.3.5** There is a well developed methodology for providing investment options and/or trading platforms.

### **Practice 1.4: Information systems and technology have a strong infrastructure, staff support and are adequately secured.**

#### Practice Criteria

- 1.4.1** The organization has a well documented technology plan addressing hardware and software maintenance and development needs.
- 1.4.2** Back-up procedures and disaster recovery plans are in place.
- 1.4.3** The organization has up-to-date technology, which is supported by qualified staff.
- 1.4.4** There are adequate processes and procedures to ensure that client assets and information are protected from theft and embezzlement.

**Practice 1.5: The organization has developed programs to attract, retain, train and motivate employees.**

Practice Criteria

- 1.5.1** Employees demonstrate an understanding of how their individual tasks and objectives fit with the organization's mission statement.
- 1.5.2** A formal system is in place to foster open communications from employees at all levels, including questions, comments and complaints.
- 1.5.3** Well-defined employee training and professional development programs are available.
- 1.5.4** Compensation and benefit packages are competitive and suitable for attracting qualified employees.

**Practice 1.6: There is a formal structure supporting effective procedural and operational oversight.**

Practice Criteria

- 1.6.1** The organization has defined policies and procedures that are kept current.
- 1.6.2** There is a regular management review process to ensure that policies and procedures are appropriate.
- 1.6.3** The organization has an appropriate quality control process.
- 1.6.4** A formal review system exists to ensure that the organization upgrades its policies and procedures in order to meet regulatory changes as they occur, that affect its business type.

**Practice 1.7: There is an effective risk-management process to manage the organization's business risk.**

Practice Criteria

- 1.7.1** There is an effective process for evaluating business risk and ensure business continuity.
- 1.7.2** The organization has adequate and current proof of comprehensive general liability and errors and omissions insurance coverage.
- 1.7.3** The organization has defined policies and procedures and designated senior staff tasked with the responsibility of overseeing and managing the organization's conflicts of interest policies.
- 1.7.4** Service agreements and contracts are in writing, and the terms serve the needs of plan fiduciaries.

**FORMALIZE**

**Practice 2.1: The organization provides disclosures which demonstrate that there are adequate resources to sustain operations.**

Practice Criteria

- 2.1.1** Standard financial statements or executive disclosures provide evidence of adequate resources to sustain operations.

**Practice 2.2: The organization maintains defined business strategies which support its competitive positioning.**

Practice Criteria

- 2.2.1** The organization has a discernable business plan to develop the organization.
- 2.2.2** The organization demonstrates an effective process that fosters service and product innovations.

**Practice 2.3: There is an effective process for allocating and managing both internal and external resources and vendors.**

Practice Criteria

- 2.3.1** The organization has a competitive evaluation process for selecting service providers.
- 2.3.2** The organization has a review process in place to assess the performance of internal and external service providers.

**Practice 2.4: There is adequate and appropriate disclosure and delineation of the cost of services provided to each client serviced.**

Practice Criteria

- 2.4.1** The organization can demonstrate policies and procedures that ensure that costs are appropriately delineated, properly accounted for and disclosed to clients.
- 2.4.2** The organization can demonstrate that fees paid to the organization by the administered vehicle are disclosed to clients.
- 2.4.3** Procedures exist to determine if fees paid by the administered vehicle are commensurate with governance document provisions.
- 2.4.4** The organization has a process to identify and disclose to plan fiduciaries all fees and expenses associated with the plan, including investment products in the plan, internal expenses of the investments products as well as expenses of any accompanying vehicles such as group annuity contracts paid by the plan sponsor, plan or plan participants. (This information is presented in a manner to allow the plan fiduciaries to determine the total plan cost and compare it with alternatives and against benchmarks to determine reasonableness.)
- 2.4.5** The organization has a process to identify and disclose to plan fiduciaries any money or value to include but not be limited to, commissions, 12-B1 fees, shareholder service fees, etc., which may be paid to anyone as a result of the plans investments. (This information would enable fiduciaries to determine if conflicts of interest (real or potential) exist with any of the service providers.)
- 2.4.6** The organization has the capability to offset plan costs and report the offset to plan fiduciaries at the plan sponsor, plan and or participant level, to the extent any money as defined in 2.4.5 exists in accordance with written plan contracts and agreements if applicable. (This is necessary because in some cases the offset is to be contractually applied to the plan sponsor, the plan or the plan participants.)
- 2.4.7** Fees generated from investments or third parties that benefit the organization or any specific client are fully disclosed.

**Practice 2.5: The organization has responsible and ethical reporting, marketing, and sales practices.**

Practice Criteria

- 2.5.1** Documented guidelines are applied for sales and marketing practices.
- 2.5.2** There is management or a legal and compliance review (if applicable) of all marketing communications.
- 2.5.3** There is a defined policy for remuneration of third-party representatives.
- 2.5.4** There is a documented and disclosed process for selection of third parties that provide operational access to, and processing of, investment options.

**IMPLEMENT**

**Recordkeeping**

**(Practices 3.1 and 3.2 are not applicable to firms registered only for Administration Services)**

**Practice 3.1: Trading and cashiering systems, processes and procedures are defined and documented.**

Practice Criteria

- 3.1.1** Processes and procedures are documented and well defined.
- 3.1.2** There are adequate processes and technologies and support services to enable the client fiduciary to follow applicable "Safe Harbor" provisions and/or Prohibited Transaction exemptions (when elected).
- 3.1.3** The trade aggregation, submission, reconciliation and confirmation processes are commensurate with trading and settlement platform partners and investment providers.
- 3.1.4** Systems and processes function in an appropriate, timely manner for the accurate and efficient operation of any plan it accepts for servicing.
- 3.1.5** The organization has systems, processes and procedures to protect client information and assets (if under the organizations control).
- 3.1.6** Information systems and/or procedures prevent late day trading and ensure that there is no possibility of manipulation.
- 3.1.7** Information systems and/or procedures exist and are designed to enable compliance with investment-related restrictions, such as frequent purchase and redemption (market timing) of securities and/or separate accounts embedded within variable annuity contract investments.

**Practice 3.2: Trade processing and cashiering are done in a timely and accurate manner.**

Practice Criteria

- 3.2.1** Participant information and account balances are properly recorded for new/conversion plans.
- 3.2.2** Contributions, loan repayments and distributions are accurately reported on a timely basis.
- 3.2.3** New participant loans are properly executed and documented.
- 3.2.4** Transfers and investment election changes are executed in a timely and accurate manner.

- 3.2.5 Trades are executed in a timely and accurate manner.
- 3.2.6 Investments are valued at market in a timely and accurate manner.
- 3.2.7 Investment income is allocated in the appropriate period, on a timely and accurate basis.
- 3.2.8 Reconciliations are performed in a timely and accurate manner.
- 3.2.9 Responsibility for distribution and withdrawal transaction processing and reporting is clearly defined and delineated between client, Recordkeeper, TPA and other vendors that will participate in the transaction.

### **Documentation**

**Practice 3.3: Recordkeeping and administrative information is readily available, disclosed and accessible to authorized parties for prudent selection and monitoring of the service provider.**

#### Practice Criteria

- 3.3.1 There is an adequate information retention policy.
- 3.3.2 Recordkeeping and administrative information is sufficiently reliable, comprehensive, and accessible to allow fiduciaries and other authorized parties to prudently evaluate the service provider's capabilities, costs and performance.
- 3.3.3 Recordkeeping and administrative information is reported to authorized parties in conformance with contractual and regulatory obligations.

### **Administration**

**Practice 3.4: Administration activities are performed in a timely and accurate manner.**

- 3.4.1 Systems and services are capable of operating and administering the plan in accordance with its submitted governance document and the provisions therein.
- 3.4.2 Compliance procedures are performed properly, timely and completely in accordance with Internal Revenue and Department of Labor rules and regulations.
- 3.4.3 Form 5500 and 1099R returns (if applicable) are completed properly and filed on a timely basis in accordance with Internal Revenue and Department of Labor rules and regulations.
- 3.4.4 There is adequate coordination with fiduciaries and/or plan sponsors to maintain relevant and accurate data related to key employees, control groups or affiliated employees or employers.
- 3.4.5 Compliance activities are performed by staff with appropriate qualifications.
- 3.4.6 Policies, procedures and appropriate management oversight exists to ensure plan continuity at all times.

### **MONITOR**

**Practice 4.1: There is a process to periodically review the organization's effectiveness in meeting its client responsibilities.**

#### Practice Criteria

- 4.1.1** Reviews are conducted at planned intervals to determine whether appropriate policies and procedures are in place and such policies and procedures are effectively implemented and maintained.
- 4.1.2** Reviews are conducted in a manner that ensures objectivity and impartiality.