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The Governor of the Central Bank addressed the current and future challenges of the Contributory Pillar Savings Fund (*Comité del Fondo de Ahorro del Pilar Contributivo*, FAPC in Spanish), which will be administered by *Banco de la República* (the Central Bank of Colombia).

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Greetings to all attendees of this Capital Market Symposium, and thanks to Asobancaria for the invitation and the opportunity to participate in this event.

I would like to share with you some remarks on the role that *Banco de la República* will play in the administration of the Contributory Pillar Savings Fund of the pension System, in accordance with the legal framework approved by the Congress of Colombia and currently under review by the Constitutional Court.

Banco de la República role in the Administration of the Contributory Pillar Savings Fund of the Pension System

Law 2381 of 2024 established this Fund as a special account, which will be administered by *Banco de la República* in its capacity as the Government's fiscal agent. For this purpose, the Bank must ensure a strict separation between the Fund's resources and its own resources. In addition, its administration must be completely independent of monetary, foreign exchange, and credit policy functions, as well as the management of foreign reserves.

As you know, this Law establishes that, in the contributory pillar, pension contributions made by all workers will include a pay-as-you-go component administered by Colpensiones, corresponding to contributions on income between 1 and 2.3 legal monthly minimum wage in force (SMMLV in Spanish). Since a portion of these contributions currently goes to the individual savings component, the change will result in a significant increase in the resources that Colpensiones will receive once the reform comes into force. In the future, this situation will be reversed, because the payment of pensions by Colpensiones will require greater resources than those demanded by the current system.

Under these conditions, the Law stipulated that the excess resources that Colpensiones will temporarily receive over a period of two to three decades, compared to what it would have received under the previous regime, should be saved in the Contributory Pillar Savings Fund (FAPC) and that this Fund be administered by *Banco de la República*. The resources received through the FAPC will be channeled into the capital market through professional administrators to generate returns that will help the government cover its pension obligations in the future.

Considering that today, before the reform comes into force, Colpensiones has a significant deficit, the Colombian Government transfers resources that are part of the public expenditure that are approved annually in the national budget, which also affectshe country's fiscal deficit. The creation of the Contributory Pillar Savings Fund (FAPC), administered by *Banco de la República*, is designed in such a way that said Fund is allocated calibrated revenues to ensure that neither the National Government's current pension expenditure nor the economy's aggregate savings are affected.

In principle, this should also allow the flow of resources currently directed to the capital market through the Pension Fund Administrators (PFAs), which will decrease due to the lower contributions that these PFAs will receive, to be offset by the resources channeled to the capital market through the FAPC.

It is important to emphasize that the temporary surplus of resources that will be allocated to the FAPC will most likely be insufficient to cover future pension obligations. The bill itself estimates that the FAPC will be fully depleted by 2070, which means that the Government will need to provide additional resources to cover the corresponding deficit.

The challenge of making the pension system sustainable in the long term will likely require adjustments to the system's parameters, particularly regarding retirement ages and affiliates' contribution rates. The need to move in this direction remains pressing and is not in any way affected by the role as financial resources administrator that *Banco de la República* will assume.

Preparation for the Structuring of the Contributory Pillar Savings Fund
The Bank's staff has carried out multiple activities to prepare for its role as administrator of the Fund, even before the issuance of the regulatory decree, which, as I will mention later, was issued on May 28.

Based on the processes currently implemented in its other mandates, such as the Savings and Stabilization Fund of the General System of Royalties and the management of foreign reserves, the Bank seeks to implement for the Contributory Pillar Savings Fund the best practices in internal governance for decision-making, contracting portfolio administrators and monitoring their management, and operational capacity, among others.

Regarding internal governance, in February, the Bank's Board of Directors approved the creation of the Administrative Committee of the Contributory Pillar Savings Fund, an internal body that will make administrative, operational, and contractual decisions for the administration of the Fund. It also approved the creation of the Department of the Contributory Pillar Savings Fund within the structure of the Bank's Office of the Deputy Executive Governor.

I would like to emphasize that in the administrative decisions taken by *Banco de la República*, particular attention was given to ensuring that those responsible for administering the Fund within the Bank remain independent from the technical staff responsible for implementing monetary, foreign exchange, and credit policy. This is part of the necessary measures, controls, and mechanisms to ensure that the administration of the Fund does not interfere with the Bank's functions as established in the Constitution.

Regarding the contracting processes, the Bank has extensive experience in designing rigorous selection and monitoring processes for portfolio managers. Based on these best practices, during the first four months of this year we drafted an invitation letter to participate in the process and a draft contract that will serve as the basis for contracting during the transition period. Additionally, as part of the preparation phase, we held discussions with trust companies, stock brokerage firms, life insurance companies, and pension fund administrators to share the main characteristics of the contracting process during the transition period, including the investment objective, minimum requirements for applying, the use of guarantees or insurance policies, and the use of competitive mechanisms for selection and determination of management fees, among others. These discussions allowed us to gather the perspectives and main concerns of potential administrators of the Fund, with the aim of advancing this phase as far as possible.

Additionally, on May 9, the Ministry of Labor issued the Single Regulatory Decree of the General Pension System, which includes a chapter dedicated to the Contributory Pillar Savings Fund, establishing the conditions under which the transfers of resources from Colpensiones and the Administrators of the Complementary Individual Savings Component (*Administradoras del Componente Complementario de Ahorro Individua*, ACCAI in Spanish) to the Fund must be carried out. The Decree authorizes the Bank to define the technical, operational, and compensation conditions to receive these resources, including timelines.

To this end, the Bank's staff prepared a draft External Regulatory Operational Circular, which was presented on June 13 to the institutions responsible for transferring resources to the Fund, a process during which we received comments that are currently under review. We expect to have a finalized external circular in August, which will enable Colpensiones and the ACCAI to move forward with the necessary IT developments for the proper transfer of resources and information.

I would like to highlight the progress we have made in designing the selection process for the four expert members of the Steering Committee, which must be carried out by the Board of Directors. Currently, there is a draft External Resolution of the Board of Directors that defines the required profiles, the methodology for evaluating candidates' resumes, and the selection process, among other aspects. However, further progress in this selection process of the four expert members of the Steering Committee by the Board requires the corresponding government regulations to be in force, which is not legally clear under the current circumstances, as the decrees issued were based on a law whose validity has been suspended by the Constitutional Court.

On May 28, Decree 574 was issued, establishing the regulations applicable to the administration of the Fund, most of which must be implemented by the Bank prior to the Fund's commencement of operations, which, as is known, was scheduled for July 1st.

This Decree established the main characteristics of the Fund, the requirement to enter into a contract with the Ministry of Finance for its management, the Bank's functions as administrator, and the provisions regarding the Fund's accounting and governance.

As part of this last point, the Decree defined the functions and conditions under which the Steering Committee will operate as the Fund's highest decision-making body, the Bank's functions as Secretary of this Committee, and the criteria that the Bank's Board of Directors must apply to select the four expert members who will make up the Committee, together with the three government members, the Minister of Finance and Public Credit or their delegate, the Minister of Labor or their delegate, and the Director of the National Planning Department.

The Decree issued on May 28 also established a twelve-month transition period, since, at least initially, the four expert members of the Steering Committee will not have been appointed and, therefore, the Committee will be unable to operate. According to the Decree, during this twelve-month period, the Bank will establish the conditions for the temporary contracting of portfolio administrators, and the resources must be invested under conditions similar to those of the moderate-risk mandatory pension fund currently managed by the PFAs.

Around the time Decree 574 was issued, considering that by the end of May there were just over four weeks left before the new regime was scheduled to enter into force on July 01, *Banco de la República* informed the Ministry of Finance and the Financial Regulatory Unit (URF in Spanish) of the need to include, within the transition, what I called "the transition within the transition." In particular, we proposed that, for a few months, the resources of the FAPC could be invested in an interest-bearing deposit at *Banco de la República* itself, under the same maturity and interest rate conditions that the Bank grants to National Treasury deposits. This request, which was well received by the Ministry at the time, aimed to minimize the risk that the Fund's resources would remain uninvested while completing the procedures required to contract the first portfolio administrators.

This situation, caused by the short time available between the government's regulation and the expected entry into force of the Law, illustrates the additional problems that may arise following the suspension of the law by the Constitutional Court on June 17. In fact, since that date, it has not been possible to move forward with the signing of the inter-administrative contract between the Bank and the Ministry of Finance, even though the text of the contract had been practically agreed upon. The legal possibility of initiating the selection and contracting of portfolio administrators by *Banco de la República*, as well as of advancing the appointment process for the four experts to the Steering Committee, has also been suspended. For these and many other reasons, we believe that additional adjustments to the transition contained in Decree 574 are likely to be required, since the dates set forth therein would not be consistent with the Law's entry into force, which will eventually be defined by the Constitutional Court.

On July 10, I sent a letter to the Constitutional Court in which I requested that, in the event that the Law is declared constitutional, the effective date of the Law and the System be clearly established. In this communication, I requested that the entry into force of the System be deferred to a date at least three months after the publication of the ruling declaring the constitutionality of the Law. This time window is required to carry out a series of activities previously mentioned, such as signing the inter-administrative contract and the development of the various stages required in the process of contracting the FAPC administrators.

As I have stated publicly, this request was never intended to hinder the entry into force of the pension reform. On the contrary, everything the Bank has done since the Law was initially approved, more than a year ago, has been aimed at fulfilling, as effectively as possible, the obligations established by the legislature and complying with the regulations issued by the National Government throughout this year.

Definition of the Regulations on Investment Policy and Decumulation and their Impact on the Capital Market
I must mention at this point that, to date, certain aspects of the Law's regulations have not yet been issued by the government. Particularly important are the regulations to be issued by the National Government regarding the Fund's investment regime and its decumulation. These regulations are essential to ensure that this decumulation is consistent with the intent of the legislature from the moment the Law enters into force.

Article 92 of the Law establishes that the functions of the Steering Committee include the approval of the eligible assets for the Fund, the risk and return objectives, the reference portfolios, if any, and the evaluation policy to which portfolio administrators must adhere, among others. Therefore, we expect the Fund's investment regime to establish the general guidelines that must be considered by the Steering Committee in order to fulfill these functions, without going into the definition of details that will fall under the Committee's responsibility.

Best practices in the regulation of pension funds by the Organization for Economic Cooperation and Development (OECD) suggest avoiding asset limits that prevent adequate portfolio diversification. These OECD recommendations also clearly discourage the use of minimum investment levels for any asset or investment class, except in exceptional and temporary circumstances for compelling prudential reasons. We hope that many of these observations will be considered by the National Government in the regulations to be issued.

Different government entities have made projections regarding the Fund's future revenues, which, in the first months, range between 1.4 and 2.6 trillion Colombian pesos per month. Depending on these estimates and the decumulation regulations, the Fund is expected to reach its maximum value between 2048 and 2057. Considering these projections, the Fund is expected to be considerable in size and to have an impact on the local capital market. The contracting processes implemented by the Bank will seek the participation of a broader set of entities in the administration of the FAPC in the medium and long term, as well as the development of financial products consistent with the investment horizons of the different generational subaccounts and the risk-return profile defined by the Steering Committee.

Closing remarks

Banco de la República will continue to offer its full collaboration so that all parties involved can work in a coordinated manner and with the necessary speed, thus ensuring the proper implementation of the Contributory Pillar Savings Fund once the Constitutional Court issues its ruling on the constitutionality of the Law and sets the date on which, according to the Court, it should come into effect.

Thank you very much.

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