January 14, 2009

Bob Christie
Chair
Joint Forum of Financial Market Regulators
Joint Forum Secretariat
5160 Yonge Street
17th Floor, Box 85
North York, Ontario
M2N 6L9

Dear Mr. Christie:

The Pension Investment Association of Canada (PIAC) is pleased to have been invited to assist the Joint Forum in identifying specific problems in the market place that we believe should be addressed by the Joint Forum in its new strategic plan.

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC’s member funds are responsible for the oversight and management of over $940 billion in assets on behalf of millions of Canadians. PIAC’s mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

From 2005 to 2007, the Pension Investment Association of Canada (PIAC) was pleased to participate in the Industry Working Group which submitted recommendations to the Joint Forum on developing reforms to investment rules arising in the interaction of pension, insurance and mutual fund rules. One theme heard repeatedly from our members is the need to re-invigorate the process for broad overhaul of pension rules in this changing environment. We believe that the Working Group stopped short of fully addressing these concerns, and that resolution of some of the specific rule issues addressed by the Working Group has led to deferral of broader review of changes (e.g. the implementation of prudent person standards) that might benefit pension plans and reduce the burden on government. We do support your objective of continuous improvement and strongly urge you to push forward with a broader agenda.
We understand that the position of the Joint Forum is that the work to streamline capital accumulation plan investment rules has been completed with the harmonization of two specific rules (i.e. the concentration rules based on market value, and the concentration rules applied as a purchase test).

However, we must respectfully disagree that the Joint Forum’s work related to quantitative investment rules is complete and strongly urge you to give attention to the implementation of prudent person standards. While PIAC was not opposed to the harmonization of these rules, these measures do not go far enough and do not take into account the broader view referred to above.

As we have consistently maintained over the past 10 years, PIAC believes that Canada should fully adopt the prudent person standards for investing all types of pension plan assets and eliminate the various quantitative rules pertaining to portfolio diversification, industry concentration, and passive investment. It is our understanding that Canada is the only developed country that uses quantitative limits to the degree outlined in the PBSA, instead of the more universally applied prudent person standards for investing. More detail is provided in the attached Recommendations for Modifications to Pension Plan Investment Rules submitted to CAPSA in August 2001.

If, in the view of the Joint Forum, moving to prudent person standards is not achievable, then PIAC maintains that more needs to be done to eliminate inconsistencies and inefficiencies in the investment rules, and we would encourage the Joint Forum to add such a review to their 2009-2012 initiatives. Specific areas of focus include:

- the 10% single issuer rule which restricts investments in such liquid assets as US Treasury bonds and other similar bonds of US government agencies, and

- the rule that limits a pension plan from owning up to 30% of the voting shares of a corporation.

PIAC urges the Joint Forum to continue its efforts to reconcile differences in investment rules for pension funds, mutual funds, segregated funds and other pooled investment funds in order to clarify the investment rules that are to be adhered to by plan sponsors who invest in these funds. PIAC pledges to assist you in any ongoing process to move this forward.

Yours truly,

[Signature]

Gayle McDade
Chair

Enc. Submission to CAPSA Recommendations for Modifications to Pension Plan Investment Rules dated August 2001