



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

October 30, 2014

The Honorable Kevin Sorenson
Minister of State
Department of Finance
Canada
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Via E-mail: pensions@fin.gc.ca

Dear Minister Sorenson:

Re: Pension Benefits Standard Regulations - Proposed Amendments

The Pension Investment Association of Canada (“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 \$1 trillion 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.

We are pleased to have this opportunity to respond to your announcement of proposed changes to the regulations governing federally regulated pension plans in this letter as set out in the sections below.

Improving the regulatory framework for defined contribution pension plans

The description of the investment choices should meet the minimum standards described in the Capital Accumulation Plan Guidelines established by the Joint Forum of Financial Market Regulators. More specifically, the information described in Section 4.2.1 Investment Funds, Section 4.4 Description of Fees and Penalties and Section 5.3 Performance Reports for Investment Funds should be provided to members.

Examples of information that would be helpful for members include

1) a detailed breakdown of the fees paid by members, including:

- any costs that must be paid when investments are bought or sold;

- costs associated with accessing or using any of the investment information, decision-making tools or investment advice provided by the CAP sponsor;
- investment fund management fees;
- investment fund operating expenses;
- recordkeeping fees;
- any costs for transferring among investment options (including penalties, book and market value adjustments, tax consequences);
- account fees; and,
- fees for services provided by service providers.

2) details of the time horizons to provide when reporting the performance history (e.g. provide annual returns and annualized 1-yr, 3-yr, 5-yr and since inception returns on each investment fund offered by the plan; 3) where to find information about the rest of the portfolio holdings; and 4) the names of the investment firms managing the fund.

To the extent that disclosure practices are likely to evolve over time, we would encourage you to consider whether all the details need to be prescribed in regulations, or whether a best practices guideline would accomplish the same objectives but with more flexibility for modification in the future.

Modernizing the investment rules

PIAC supports and thanks the federal government for their recognition of PIAC's past requests for the change in the concentration limit from book to market value. In implementing this enhancement, we would, however, note the following:

10% Limit

- We believe it is appropriate to establish a grandfathering period to permit plans to accommodate the change, including time required to value assets that such as investments in private equity, infrastructure or real estate, which are not traded in the open markets. We suggest up to 24 months would be sufficient.
- We support the exemption for an investment in an "investment fund". However, the proposed definition of "investment fund" requires that the fund be established "by" a corporation, partnership or trust. We recommend that Finance broaden the proposed definition to include investment funds established by the fund.
- We note that the 10% limit applies to member choice accounts rather than at the total fund level. We are concerned about this requirement and its impact on the Plan Administrator, who does not make investment decisions for member choice accounts. We believe the regulations should be made clear that the Administrator cannot be held responsible for ensuring that this limit is maintained, as it is not enforceable.
- We are aware of smaller plans that use larger plans (e.g. OMERS) to manage portions of their investment assets. As a result, we believe that where the larger plan complies with all regulatory requirements, an exemption from the 10% concentration limit for these plans is both reasonable and appropriate.

Related Party Rules

Nominal and Immaterial Exemption

- PIAC is very concerned about the recommendation to remove the “nominal and immaterial” exemption from the related party rules. The exemption has worked effectively in the past, as we see no reason to change it now. Among other benefits, this exemption enables the efficient and effective operation of plans of organizations involved in finance services.
- Without the “nominal and immaterial” exemption, plans may moreover find themselves in non-compliance with the related party rules given the complexity of the definition of related parties. This is especially the case for large plans or plans sponsored by large organizations that could be required to track the personal investments of members and their families. It would be virtually impossible for a Plan Administrator to ensure compliance with the related party rules in making an investment without the immateriality exemption.
- It should be noted that even though the current exemption is in place (1) all pension plans are required to state their criteria for whether a transaction is nominal or immaterial in its Statement of Investment Policies and Procedures, and (2) there are other safeguards to prevent abuses of related party transactions, including prudence and conflict of interest standards.
- To the extent the government decides to remove this exemption, we strongly recommend that any investments that were made prior to the coming in force of the regulation be grandfathered.

Larger Plan Issues

- Because of the nature, diversity and range of investment portfolios held by larger pension funds, we believe that the related party restrictions result in an unreasonable barrier to the operation of those plans, particularly with respect to infrastructure investments.
- As a result, PIAC recommends that the definition for “related party” be aligned to the definition in the *Canada Pension Plan Investment Board Regulations* which defines related parties with reference to directors, officers or employees of the Board or persons responsible for holding or investing the assets of the Board.

Improving protection for plan members and beneficiaries

No Comments.

Enhanced Disclosure

- PIAC is generally in favor of enhanced disclosure, but we are not convinced that the disclosure of the top 10 asset holdings provides meaningful or actionable information to plan members.
- To limit what could be an overwhelming administrative obligation, we believe that the regulations should be clarified so that Administrators should only be required to send statements to former members and retirees’ last known addresses.

Additional Technical Regulatory Amendments
No Comments.

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We thank you for the opportunity to share our thoughts with you, and would welcome an opportunity to meet with the Department of Finance on our comments and suggestions.

Yours truly,

A handwritten signature in black ink, appearing to read "Michael Keenan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Keenan
Chair

cc. Lisa Pezzack, Director Financial Sector Division, Financial Sector Policy Branch,
Department of Finance Canada Lisa.Pezzack@fin.gc.ca