Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

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Dear Mr. Nordin,

Thank you for asking the Pension Investment Association of Canada (PIAC) to respond to the questions outlined on Page 27 of the Consultation Paper titled "The Prudence Standard and the Roles of the Plan Sponsor and Plan Administrator in Pension Plan Funding and Investment.

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.

1. What role should the plan administrator play regarding the Funding Policy?

We do not suggest any changes to the role of plan administrator, which currently differs depending on the type of pension plan used.

The plan sponsor of a single employer pension plan (SEPP) is responsible for the Funding Policy. In this situation, the plan administrator is responsible for ensuring that its actions are consistent with and in compliance with the Funding Policy and other similar policies, such as the Statement of Investment Policies and Procedures (SIPP).

If the pension plan is a MEPP as defined in the Consultation Paper or any jointly governed and/or jointly funded pension plan, the plan administrator is generally responsible for both the approval of the Funding Policy and implementation of the

Funding Policy. In certain jointly governed pension plans, the Funding Policy may be set by the plan sponsors.

On Page 6, the Paper states that the plan administrator’s specific funding and investment duties include “monitoring the investment managers’ performance.” We propose that this be changed to “monitoring the Fund performance.” The selection of investment managers is an implementation matter that is often delegated to staff subject to compliance with the SIPP. The plan administrator however, would remain responsible for monitoring the performance of the overall Fund and responsible for overseeing staff and/or third party suppliers if certain duties have been delegated to them

2. Has this paper sufficiently set out the elements for the Funding Policy? If not, are there any additional elements that you would recommend?

There will be some confusion as to what should be in the SIPP versus the Funding Policy. While both policies are linked, duplication should be avoided or minimized where possible. The proposed second and third elements “Key Risks Faced by the Plan” and “Funding Volatility Factors and Management of Risk” are elements that are commonly found in SIPPs as per OSFI’s Guidelines. As a result, plan sponsors and plan administrators seek greater clarity about what the regulators expect to see in the SIPP versus the Funding Policy.

Page 15 of the Consultation Paper states that the SIPP deals with assets while the Funding Policy deals with the plan’s liabilities and contributions. The SIPP deals with how the Fund is invested taking into account the liability structure of the Plan. For example, any applicable mismatch risk would be dealt with in the SIPP. The Funding Policy would deal with how the Plan should be funded, taking into consideration any potential shortfall stemming from the mismatch risk. Plan administrators subject to solvency funding rules would address actual and potential short-term funding requirements in addition to long-term funding requirements associated with going concern funding rules.

3. What role should the plan sponsor play regarding the SIPP?

A plan sponsor offering a plan that is not jointly funded, will need to work closely with the plan administrator to make sure that the SIPP is consistent with the Funding Policy because the plan sponsor is ultimately responsible for the funding of the plan. In a jointly governed and jointly funded pension plan, the plan sponsors are generally involved in setting the degree of funding risk and in the Funding Policy, whether formalized or reflected in a set of practices.

4. Under what circumstances should the plan administrator be encouraged to have an investment policy covered by more than one document?

Investment policies, investment procedures, and investment manager contracts should be separate documents because they serve different purposes. The investment policy is a governing document outlining high level policies which need to be approved by the plan administrator. Investment procedures deal with implementation and operational matters that document procedures to be followed by staff. Investment contracts should be separate documents because they are legal documents, containing contractual arrangements between the plan and the investment manager. For more complex funds it may be appropriate for the investment policy to refer to other key policy documents, such as a governance or code of ethics policy.

5. Does this paper adequately address what additional elements could be incorporated into the SIPP?

No. We seek clarity about what regulators are asking for in a SIPP that is above and beyond what is already suggested by OSFI in its Guidelines for SIPPs. On Page 21, the Consultation Paper states that the “SIPP needs to address whether internal or external investment managers will be used, the extent of their activities and authority, the process by which they will be selected and how their performance will be monitored.” These items are not policy items, but rather operational items. As such, they should not be contained in an Investment Policy document. They are better managed in a procedural document.

Page 21 then states “If external managers are used, an investment management agreement ought to be required.” We propose that “ought to be ” should be replaced with “would be.” It would not be prudent to hire an external investment manager without a contract clearly outlining legal rights, mandate to be followed, and the fee arrangement.

“Related Party Transactions” outlined on Page 22 is already included in OSFI’s Guidelines for SIPPs.

In “Key Points” on Page 23, we question why the word “independent” is used when describing the process used to make an investment decision, when seeking advice, or when using judgement. If a plan administrator hires qualified staff to perform these duties for the plan administrator or to assist the plan administrator instead of using external consultants, would staff be considered “independent” in this context?

In “Investment Review Process” on page 25, what does the following sentence mean?: “Pension fund investments should be reviewed at least annually to determine if the investments need to be audited.”

6. Are the items listed in the section Regulator Examinations and Review of Funding and Investment Processes sufficient? If not, what additional elements do you recommend?

We consider this list to be reasonable and comprehensive. Should “Considers actuarial valuations to confirm compliance with legislative requirements to ensure consistency with the plan’s Funding Policy” be “Considers actuarial valuations to confirm compliance with legislative requirements and to confirm consistency with the plan’s Funding Policy.”

Other Comments:

On Page 8 under "The Prudent Person Rule", we propose that "and avoid unwarranted risk" be replaced with "to minimize unwarranted risk." By definition, it is impossible to avoid all risks.

On Page 9, the Paper states that "Pension plans should consider having a comprehensive governance document that includes all the pension policies, contracts, and agreements." We disagree. Policies, procedures, and contracts are different documents that have different purposes. It would serve no useful purpose to combine these into one overall document. However, these documents should cross-reference each other where applicable and should be stored in a central location.

On Page 13, the Paper states that "anytime a decision is made, it should be well documented, and include the reasons and circumstances that were considered." We propose that this apply to key decisions only since this requirement would be overly burdensome for plan administrators to follow for all decisions, including administrative decisions.

On Page 14, we propose that ..."funding rules can result in a large potential for annual fluctuations in funding requirements" be streamlined to "funding rules can result in large annual fluctuations…"

On Page 20, the Paper cites that documentation of how investment managers are chosen would be a benefit of an Investment Policy. This operational matter is better reflected in Investment Procedures rather than an Investment Policy because the selection of investment managers is an implementation matter that can vary substantially depending on the asset class and investment mandate being considered.

The Paper talks about two types of plans: SEPPS and MEPPs. However, the paper does not address jointly governed and jointly funded plans that do not fit the definition of MEPPS described in the Paper.

We hope you will find our comments constructive. We would be pleased to discuss our views with you at your convenience.

Yours truly,

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