



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

October 4, 2007

Jonathan J. Stokes
Director, Standards of Practice
CFA Institute Centre for Financial Market Integrity
CFA Institute
560 Ray C. Hunt Drive
Charlottesville, Virginia 22903-2981
USA

Dear Mr. Stokes:

Re: CFA Draft Code of Conduct for Members of a Pension Scheme Governing Body

This submission is made by the Pension Investment Association of Canada (“PIAC”) in reply to the request for comments from the CFA Institute Centre for Financial Market Integrity on the proposed Code of Conduct for Members of a Pension Scheme Governing Body (“the Code”).

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 \$890 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.

We welcome the initiative to document a set of standards for best practice for members of pension governing bodies and we recognize that, given the diversity of organizations involved, there can be no one-size-fits-all structure for pension fund governance.

PIAC supports a Code of Conduct that contains fundamental, high-level responsibilities of Trustees. The concepts of good faith, prudence, skill, independence, and the avoidance of conflicts of interest and self-dealing are among key fiduciary duties and minimum requirements for a Trustee and we would support their codification.

We are concerned though that the Code as written goes beyond being a set of fundamental, ethical and high-level responsibilities and encroaches upon the responsibilities of management.

We agree that items 1 through 9 are key concepts related to fiduciary duties and conflicts of interest, however item 10 appears to be more related to management duties.

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If the Code of Conduct is in fact meant to address pension management duties, we would suggest that there are several responsibilities that have been missed and those that are mentioned merely document what historically has been considered to be the oversight scope of Trustees rather than best practice or possible improvements that could be made by pension organizations. The pension management and governance process is significantly broader and deeper than the Code describes.

As an example, the Code encourages the continued focus by Trustees on active investment manager hiring, firing and performance. The risk associated with active management in almost all cases pales by comparison with the risk inherent in the policy asset mix adopted by Trustees, yet the time allotted to these two areas is generally inverse in proportion to the size of the risks. Trustees ought to be focusing on setting up policy frameworks within which to allocate risk for both asset mix policy risk and active risk as well as frameworks to monitor performance of the asset mix policy and the risk of the overall pension fund. Also, we believe the selection of investment managers is an implementation function, a function that could better be delegated by Trustees to prudent experts who have the requisite time and skill set.

The Code also appears to be narrowly-written, in particular, by stating that “trustees can rely on external third-party service providers and professional consultants”. This encourages the continued reliance by lay Trustees on third parties who may have less accountability or vested interest in the outcomes of actions resulting from their advice. Other options that should be considered include the appointment of expert Trustees; or the hiring of internal "staff" with investment expertise who could act as an internal consultant; or even the development of an internal investment team to manage the fund directly. The delegation of various Trustee responsibilities to experts is a prudent option; and the Trustees retain the ultimate fiduciary duty to monitor the experts and to ensure that the delegated responsibilities are carried out appropriately. The Code should be broadly written to ensure that individual pension funds have latitude to implement various approaches and still fulfill the requirements of the Code.

We have attached a PIAC document titled “Effective Pension Plan Governance – The PIAC Governance Model”, a document that, while having been written in 1997, continues to represent PIAC’s views on the subject. Indeed a Code of Conduct is one component of a well-run pension fund.

We appreciate the opportunity to respond to your request for comment and hope that you find our feedback relevant. Please do not hesitate to contact us if we can be of further assistance.

Respectfully submitted on behalf of the Members of the Pension Investment Association of Canada.

Yours truly,

Terri Troy
Chair

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