



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

May 28, 2010

The Honourable James M. Flaherty
Minister of Finance
Department of Finance Canada
140 O'Connor Street
Ottawa, Ontario
K1A 0G5
jflaherty@fin.gc.ca

Dear Minister,

Re: REGULATIONS AMENDING CERTAIN REGULATIONS MADE UNDER THE
PENSION BENEFITS STANDARDS ACT, 1985

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.

We appreciate this opportunity to comment on the changes being introduced to the Regulations pursuant to the Pension Benefits Standards Act, 1985.

Proposed Funding Rules

Although the introduction of the 3 year average solvency ratio provides for a measure of funding relief, PIAC would like to reiterate its previous recommendation for solvency funding relief:

PIAC firmly believes that the current 5-year amortization period for funding solvency deficits is too harsh for financially strong companies. These companies have a very low risk of having an insolvent pension plan and should be allowed to fund solvency deficits over a longer period. The financial health of an employer could be measured either internally by OSFI or via independent debt rating agencies. For example, a longer

amortization period might be granted to a company that is investment-grade. We suggest that the amortization period for 'financially stronger' companies be extended to 10 years, while the amortization for companies that are not 'financially stronger' would remain at 5 years.

In addition, PIAC believes that the extension to the solvency amortization period should be allowed without any constraints such as plan member consent or letters of credit as was suggested in the 2009 temporary solvency funding relief. The requirement to obtain plan member consent involves a complicated and difficult communication process that will be impractical for most plan sponsors to implement.

Proposed Investment Rules

PIAC firmly believes that pension investments should be held to the standard of a prudent person and all quantitative limits on investing should be eliminated. Therefore, the elimination of the five percent, 15 percent and 25 percent quantitative investment limits are welcome and could be enhanced by the elimination of the 10% and 30% rule. For example, it may not be prudent to invest up to 10% of a pension plan's portfolio in any one security, other than low risk government bonds, on either a book value basis or market value basis. It also does not make sense to prohibit pension plans from purchasing more than 30% of a company's stock. Many pension plans invest in private equity. The prohibition of the 30% rule would allow pension plans to significantly reduce costs with respect to private equity.

The Government has stated its intention to propose additional modifications to the 10 percent concentration rule and the prohibition on investing in the sponsoring employer.

Regarding the prohibition of direct self investment, PIAC's view is that such a change would prohibit the pension funds of sponsors (public and private sector) from investing in their sponsors' shares and debt.

The proposal should not apply to:

- passive investments that are structured to replicate an investment-market index;
- investments in a pooled fund;
- securities issued by the federal Crown, a province, or a federal or provincial agency; or
- investments made by an external investment manager hired by the plan sponsor.

Letter of Credit Financing

Bill C-9 contains provisions making letter of credit (LOC) financing available to plan sponsors on an ongoing basis. PIAC encourages the Government to allow pension plans to use Letters of Credit as soon as possible.

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,

A handwritten signature in blue ink, appearing to read 'Algis Janusauskas', with a long horizontal stroke extending to the right.

Algis Janusauskas
Chair