



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

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Natalia Uscinowicz
Approvals Officer, Private Pension Plans Division
Office of the Superintendent of Financial Institutions (OSFI)
255 Albert Street
Ottawa, Ontario
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Via email natalia.uscinowicz@osfi-bsif.gc.ca

Dear Ms. Uscinowicz:

RE: Draft Stress Testing Guideline for Plans with Defined Benefit Provisions

This submission is made by the Pension Investment Association of Canada ("PIAC") in reply to the request for comments on the draft Defined Benefit (DB) stress test guidelines for plans with DB provisions released by OSFI on March 17, 2011.

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.

PIAC has reviewed the draft guidelines and is pleased to provide the following comments.

The guideline provides general information to plan administrators on stress testing, including the types of scenarios that could be considered and OSFI's expectations regarding the use and frequency of stress testing as a risk-management tool.

Stress testing the funded position of a DB pension plan is an important tool for both plan sponsors and plan administrators. However, stress testing is costly to perform and there may be circumstances where this tool is less applicable, such as with a fully immunized, closed pension plan. Smaller plans may also have less capacity to perform complex stress testing. We agree that plan administrators should be

responsible for determining to what degree stress testing should be performed for their plans. Also, as noted in the draft guideline, Plan administrators must be given discretion to determine the best timing for stress testing their pension plans. This is particularly important for smaller plans for which stress testing may not have been performed in the past.

Section II of the guideline outlines Pension Plan Risk with respect to the Solvency and Going-Concern Valuations, which are OSFI's primary concern. However, it may be helpful to note the risks to the plan sponsor associated with the Accounting valuation and the volatility that can exist under IFRS.

In Section III, OSFI notes that administrators should be willing to evaluate possible scenarios openly, including discussing the results and risks openly. We believe that this statement is not necessary. First it is unclear as to whom OSFI believes administrators should be discussing this with, and secondly, it presumes administrators would perform the stress testing and then not share the information with relevant parties.

In Section V, risk factors that may be covered in stress testing are noted. In PIAC's experience, it is unlikely that administrative and asset management expenses would be significant factors which would require stress testing. In addition, actuarial valuations already include reasonable long term assumptions for longevity and disability. It seems unlikely that these factors would change quickly or materially and, consequently, it would be unusual for them to be important factors in stress testing.

In Section VI, the guideline states that the results and decisions should ultimately be shared with the employer's board of directors or board of trustees. PIAC believes that the results should be shared with whom the administrator decides is appropriate. There will be cases where sharing it with the board of directors is not appropriate. For example, a very small pension plan within a large corporation may still benefit from stress testing, but the results would not be material enough to warrant sending them to the board of directors.

Thank you for the opportunity to participate in the industry consultation on this important initiative.

We would be pleased to meet with OSFI officials if it would be helpful to explore these issues further.

Yours sincerely,



Barbara Miazga
Chair