

November 20, 2002

The Honourable John Manley, P.C., M.P.
Minister of Finance
L'Esplanade Laurier
140 O'Connor Street
21st Floor
East Tower
Ottawa, ON
K1A 0G5

Dear Mr. Minister:

We are writing on behalf of the Association of Canadian Pension Management (ACPM) and the Pension Investment Association of Canada (PIAC). The members of these associations are professionals involved in the management and administration of the pension and retirement savings plans that cover most of the current and past Canadian labour forces.

We respectfully request that you take the opportunity of the upcoming Government of Canada budget to eliminate the 30% Foreign Property Rule (FPR) relating to registered pension plan assets and RRSPs.

We base our request on the results of a study that we commissioned Professors David Burgess and Joel Fried of the University of Western Ontario to conduct on our associations' behalf (copy attached). Their work leads to the following conclusions:

1. Raising the FPR limit from 10% to 30% between 1990 and 2001 has been highly beneficial to Canadians. Burgess and Fried estimate that the move from 20% to 30% "may have added as much as \$1 billion annually to the value of Canadian retirement related savings". More importantly, the diversification of these savings has increased, thus reducing their risk.
2. Elimination of the FPR would provide Canadians with further diversification benefits amounting to between \$1.5 and \$3 billion per year.

3. Increasing the FPR limit from 10% to 30% had no measurable impact on either the C\$/US\$ exchange rate or the cost of equity capital in Canada. Complete elimination is also unlikely to have any exchange rate impact and may even have a positive effect on the cost of capital in Canada.
4. The FPR hinders Canada Pension Plan (CPP) reform by requiring that most of the accumulating financial reserves be invested in the same economy that the CPP relies on for its future contributions. This is a classic case of ‘double jeopardy’ that could be addressed through the elimination of the FPR.

We believe that the current short, medium and long-term economic environments are supportive for eliminating the FPR. We do not expect that there would be any material effects on the Canadian dollar, the balance of payments, job creation, the ability of Canadian governments and corporations to raise capital, or the cost of capital in Canada. Indeed, in today’s global capital markets, the funding of domestic firms has very little to do with the availability of local capital. Rather, factors such as productivity and the competitiveness of Canadian companies in a worldwide context are critical to attracting both domestic and foreign investment capital.

In conclusion, the research in the Burgess and Fried paper confirms that the complete elimination of the FPR would result in further benefits to Canadians now, and in the future. At the same time, their research shows that these benefits can be enjoyed without imposing costs on any constituency. We urge you to act on these findings in your next budget.

Yours truly,

Russell J. Hiscock

Chairman – Government Relations
Committee of the Pension Investment
Association of Canada

Keith P. Ambachtsheer

Chairman – Association of Canadian
Pension Management

Attachment