



Pension Policy Unit
Financial Services Commission of Ontario
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Email: pensionconsultation@fscsco.gov.on.ca

Dear Sir/Madam:

RE: IGN-003 Statements of Investment Policies and Procedures (SIPPs) for Member Directed Defined Contribution Plans

The Association of Canadian Pension Management (ACPM) is a national, non-profit organization acting as the informed voice of plan sponsors, administrators and their service providers in advocating for improvement to the Canadian retirement income system. Our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

We appreciate the opportunity to comment on draft IGN 003 “Statements of Investment Policies and Procedures (SIPPs) for Member Directed Defined Contribution Pension Plans”.

Investment Guidance Notes

FSCO issued two Investment Guidance Notes in 2014 and has now issued draft IGN 003. It would be helpful if FSCO would articulate what a guidance note is and how they are intended to fit with the Superintendent’s administration and enforcement of the *Pension Benefits Act* (the “PBA”) and supervision of the regulated sectors as required by the *Financial Services Commission of Ontario Act, 1997*. In particular, it would be useful to understand how investment guidance notes are intended to differ from the Superintendent’s published policies.

IGN 003 “Statements of Investment Policies and Procedures (SIPPs) for Member Directed Defined Contribution Pension Plans”

O. Reg. 909 (the “Regulation”) under the PBA incorporates by reference the federal investment regulations (“FIR”) and, in particular, section 7.1 of the Pension Benefits Standards Regulations, 1985 (“PBSR”), which states:

The administrator of a plan shall, before the day on which the plan is registered, establish a written statement of investment policies and procedures that pertain to the plan’s portfolio of investments and loans, other than those relating to any member choice account, including policies and procedures pertaining to

(a) categories of investments and loans, including derivatives, options and futures,

- (b) diversification of the investment portfolio,*
- (c) asset mix and rate of return expectations,*
- (d) liquidity of investments,*
- (e) the lending of cash or securities,*
- (f) the retention or delegation of voting rights acquired through plan investments,*
- (g) the method of, and basis for, the valuation of investments that are not regularly traded at a marketplace; and*
- (h) related party transactions permitted under section 17 of Schedule III and the criteria to be used to establish whether a transaction is nominal or immaterial to the plan,*

The Ontario Expert Commission on Pensions (“OECF”) final report described a SIPP as setting out “in general terms the plan’s objectives in making investments”. That language and that of the FIR suggests a limited role for a SIPP. Although the Regulation is being amended to require the filing of SIPPs, the terms of the FIR and the Regulation as it concerns SIPPs have not been changed in many years.

General Comments

Before commenting on specific provisions of draft IGN 003, we wish to point out three larger points. First, a SIPP is an operational document in the governance of a pension plan that is limited to the plan’s portfolio of investments and loans. The legislative provisions concerning SIPPs are clear that it is an operational document. However, IGN 003 seems to conceive of the SIPP as a broader governance document going beyond the scope of the FIR. While we agree that many of the points set out in IGN 003 are appropriate for consideration by the administrator, they are likely to be already incorporated in other governance documents, such as the plan text and contractual agreements. To add them to the SIPP will impose a considerable administrative burden on plan administrators and will create the risk of conflict across governance documents if one document is amended without regard to the others. At an operational level, we do not think that the SIPP is an appropriate place to articulate many of the points that IGN 003 identifies as being expected by FSCO nor is it clear that the changes to the Regulation are sufficient authority for the expectations that are articulated in IGN 003.

Although each administrator will be required to file its SIPP, it is not a member-oriented document and should not be treated as such. While each of the points in Section 3.0 of IGN 003 may be appropriately addressed in a plan’s governance documents, there are no new legislative provisions that support the sort of regulatory expectations that are set out in IGN 003 and that would transform SIPPs into member-oriented disclosure documents. There is also no legislative authority to expand the scope of SIPPs in the way contemplated by IGN 003.

Second, irrespective of whether a SIPP is an operational document or a disclosure document, any regulatory position concerning SIPPs has to be built around the words of s. 7.1: “investment policies and procedures that pertain to the plan’s portfolio of investments and loans”. The draft goes considerably further than “investment policies and procedures”. In this regard, we note that FSCO has been largely silent about the content of SIPPs for many years. The new requirement to file SIPPs seems to have been a catalyst for FSCO to think more generally about the content of governance documents. We note that OSFI provided useful guidance in 2000 in the “Guideline for the Development of Investment Policies and Procedures” and set out its understanding of the meaning of the FIR as they apply to the development of a SIPP.

Third, many of the points in IGN 003 could be relevant to more than member-directed DC plans. It is not clear why FSCO is looking for additional comments only in SIPPs for member-directed DC plans. Although members of DC plans bear investment risk, investment risk is borne to some degree directly or indirectly by members in various other types of plans as well, including multi-employer pension plans. We note as well that the *Pension Benefits Standard Act, 1985*(Canada) no longer requires an administrator to establish a SIPP for member-directed DC plans, leading to a significant discrepancy between the requirements of the two jurisdictions.

Specific Comments

The focus of our comments on IGN 003 is Section 3.0 “PBA Requirements for SIPPs of Member Directed DC Plans and Content Requirements”. The title of section 3.0 refers to “requirements” but section 1.0 states that IGN 003 sets out FSCO’s “expectations”. It would be useful if FSCO would articulate what it considers to be the difference between the two terms and, with respect to its expectations, if FSCO would indicate how it intends to address situations in which its expectations are not met.

We agree with Item 5 (Process for selecting, monitoring, and terminating investment managers and funds) and Item 7 (Related party transactions). We offer the following comments concerning the other items in Section 3.0.

1. *The investment philosophy statement*: Some of the examples are markers of an investment philosophy, such as the administrator’s conclusions about active and passive management or number of investment options, and are appropriately set out in a SIPP. However, an articulation of investment philosophy is outside the scope of a SIPP. At best, the articulation of an investment philosophy is a vague and nebulous concept. If it is to be included in the SIPP, which we do not believe is necessary, FSCO should articulate what it means by an investment philosophy.

This point is more acute given that there seems to be some confusion within Item 1 about what constitutes an “investment product”. From the list of examples – target date funds, life cycle funds, government securities and mutual funds – it is not clear what is being suggested. That is, target date funds and life cycle funds speak to asset mix, “government securities” is an example of an asset class, and mutual funds are a legal structure.

2. *Permitted asset classes from which investment funds can be selected:* It is appropriate that a SIPP specifies the asset classes that the plan provides. As is the case with point 1, going further than that to express principles, beliefs and assumptions would seem to entail a discussion about investment philosophy and therefore outside the reasonable scope of a SIPP.

3. *The default investment option for member accounts where no selection is made, and an explanation as to why it is appropriate given the plan membership:* We support that a SIPP should specify the default option. A SIPP should not have to address why a particular default option is appropriate as it goes beyond the operational role of a SIPP. In our experience, administrators devote considerable time and attention to determine an appropriate default fund. A written explanation in a SIPP of the rationale will not assist the administrators in that task nor will it be of benefit to members.

4. *The process for monitoring service providers:* The draft refers to the frequency and type of reporting that the administrator will require from its service providers. Due to the use of standardized reporting across a large client base, service provider reporting is heavily dictated by what the provider is capable of doing. At best, a statement of the frequency and type of reporting would result in a reiteration of the contractual terms between the administrator and the provider.

6. *Guidance concerning plan expenses and investment fees related to the DC plan/provision:* The determination of who pays what fees is a design decision and should not be subject to inclusion in a SIPP. We see the monitoring of fees and expenses as part of the overall governance of a plan and one that occurs outside the confines of a SIPP.

8. *Information guidelines for plan members on investment options:* As noted previously, the SIPP is an operational document. The inclusion of member guidelines on investment options invites the inclusion of the entirety of a plan's communication program. We note that the administrator's obligation to provide information to members exists irrespective of the terms of the SIPP. We do not think that the inclusion of member guidelines for investment information in a SIPP would assist in the governance of a plan.

The sorts of information that FSCO contemplates being included in a SIPP may be subject to frequent change. That would mean frequent amendments and refiling of SIPPs and would add to the burden of administration and given rise to potential conflicts among documents.

ACPM appreciates the opportunity to comment on these issues. Should you have any questions or wish to discuss the content of this letter, please feel free to contact us at any time.

Sincerely,



Bryan D. Hocking
Chief Executive Officer