



ACPM/ACARR

The Association of Canadian Pension Management

L'Association canadienne des administrateurs de régimes de retraite

May 11, 2010

Mr. Philip Howell  
Chief Executive Officer and Superintendent of Financial Services  
Financial Services Commission of Ontario  
5160 Yonge Street,  
Box 85,  
Toronto, ON M2N 6L9

Dear Mr. Howell:

**Re: June 2010 Statement of Priorities**

The ACPM, through its Ontario Regional Council, is pleased to provide comments on FSCO's recently updated Statement of Priorities. We applaud FSCO's initiatives in holding stakeholder meetings and other consultative processes. We continue to encourage FSCO to engage their stakeholders early in the process to provide input before strategic priorities are set and budgeted.

***Background***

The ACPM is the informed voice of retirement income providers for Canadians.

Established in 1976, the ACPM advocates for an effective and sustainable Canadian retirement income system. Our members are drawn from all aspects of this industry from one side of this country to the other. They represent over 300 pension plans consisting of more than 3 million plan members, with assets under management in excess of \$300 billion.

The ACPM promotes its vision for the development of a world-leading retirement income system in Canada by championing the following Guiding Principles:

- Clarity in legislation, regulations and retirement income arrangements;
- Balanced consideration of other stakeholders' interests; and
- Excellence in governance and administration

The ACPM regularly advocates and participates in public dialogue on pension issues.

## ***Opportunities for Change***

The ACPM believes that it is possible for the government to create an environment in which pension plans can flourish and continue to be an important part of retirement income security for citizens of Ontario. We encourage FSCO to establish specific priorities and goals for DC plans, given their increasing role in retirement income security. For DB plans, technical and administrative changes are required, as well as more fundamental changes of principle and law that are necessary in order for these plans to flourish. In many ways, the current system of pension regulation in Ontario is strong. In other ways it is lopsided and unfair, and discourages plan sponsors from establishing new and funding existing plans beyond the minimum regulatory financing requirements. A greater sense of balance and fairness needs to be brought to the legal and regulatory context of pensions in Ontario. Creating this balance would be an excellent way for the government to encourage the growth and health of both DB and DC pension plans. In these difficult economic times for pension plans in Canada, the ACPM is advocating for significant and long-overdue change and reform. We strongly believe that the planned reform should continue and in fact should be one of the highest priorities moving forward. FSCO and the Ministry of Finance should be sending clear signals to Plan sponsors that they are open to change and want to partner with the pension community.

## ***Key Issues/Themes***

We have identified major issues/themes on which we continue to urge FSCO to take a leadership role. After all, Ontario employs the greatest number of Canadian workers, all relying on a fair and comprehensive pension system.

Within the voluntary pension system, an overriding goal of all pension regulators should be to encourage broad pension plan coverage. It is evident that a greater burden will have to be borne by society if a large group of individuals retire without adequate retirement income. The goal of expanding pension plan coverage does not appear in FSCO's recent Statement of Priorities and we request that you reinstate it.

Although gratified to see the continued effort by FSCO towards a coordinated national approach to regulatory issues, we are disheartened that this goal has not yet been achieved. Differing regulatory requirements among the multiple jurisdictions in Canada continue to create problems, ambiguity and unnecessary additional costs for multi-jurisdictional employers and plan members who move between jurisdictions. The ACPM suggests that an important step toward this is the elimination of multiple jurisdictions within the Canadian pension environment. It is important to incorporate the idea that plans may have differences but the harmonization of the rules applicable to these plans is critical for the continuation of their role in the retirement system in Canada.

The primary solution is pension legislation treating the various risk/reward arrangements appropriately. All parties should be treated fairly according to the risks they face, and the risks that are appropriate need to be clearly identified. Legislators and regulators must recognize that all plans are not alike and make appropriate adjustments to recognize the different types of arrangements - for example, SOMEPP funding arrangements. The ultimate goal remains uniform pension legislation and a single national regulator for pensions in Canada. We urge FSCO to take a leadership role in this endeavour, both with the Government of Ontario and in its discussions with other members of CAPSA.

We recognize the recent efforts of FSCO to engage stakeholders in resolving issues; however we strongly urge more intense utilization of stakeholder groups, with FSCO contacting them earlier and more frequently in the process. Calling upon industry expertise would not only result in a potentially better outcome with stronger acceptance across multiple stakeholder groups, but could reduce the manpower required by FSCO to adequately assess and recommend positive changes. We believe that the large majority of plan sponsors and service providers have the best interests of plan beneficiaries in mind as they look to rejuvenate the pension system.

Finally, the ACPM encourages fiscal accountability on the part of FSCO. Although it is accountable to the Government of Ontario, there is no mechanism for FSCO to account to its stakeholders for what it does for the levies gathered. Good governance practices would demand this accountability, especially as FSCO's funding comes almost exclusively from what are essentially funds held in trust on behalf of pension plan members.

### ***Review of the Statement of Priorities***

We provide comments below on several of the pension plan related initiatives outlined in the Statement of Priorities. We have included suggestions and questions and are hopeful FSCO will engage the ACPM in a follow-up discussion. We realize that many priorities are carrying over from previous years and understand that executing of some of the initiatives requires a longer term perspective, but we would like to see more detailed updates on progress towards these initiatives.

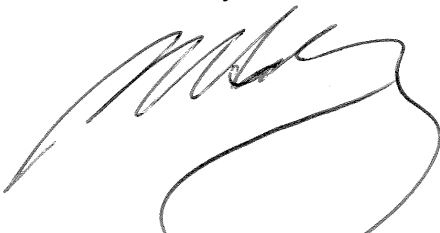
- We are very interested in the plans to develop a comprehensive approach to risk-based regulation of pension plans. We continue to urge FSCO to consult with stakeholders and associations such as ACPM to provide input in establishing such risk-based principles. We believe this initiative is the single most important item for pension plans contained in the Statement of Priorities. Often real life operations can help in focusing on actual vs. theoretical risks. The choice of metrics used for risk-based analysis can have important implications for pension plans as well as FSCO and we believe we can provide valuable input into these discussions. It is important that the metrics chosen be both (1) appropriate indicators of the health of pension plans and reliable indicators of potential stress in a plan and (2) efficient for plan sponsors to supply and for FSCO to evaluate. While there has been some improvement in the collection of information for FSCO databases, it is not clear to us that any progress has been made on the selection of risk metrics.
- We understand that several initiatives have been undertaken by FSCO to make the delivery of services and collection of data more efficient for pension plans. Knowing that FSCO has been holding more face-to-face meetings with stakeholders, we would encourage you to survey pension plans to get feedback on these improvements.
- We understand that FSCO has increased the number of meetings it has with various stakeholder groups and we support this initiative. The ACPM in particular would be pleased to be consulted on pension related issues that you may consider in the future.

- In addition, we believe that FSCO is uniquely positioned to provide valuable input to the Ministry of Finance as it develops new policy affecting pension plans. We encourage you to provide the input coming from your various stakeholder groups to the Ministry so that they have a clear understanding of the implications of any changes, both from an administrative and implementation standpoint.
- We support the idea of prudent person principles for investing, believing that it can be a powerful decision making guide and are pleased to see that FSCO is working with CAPSA on this issue. Again, please seek input from your stakeholder groups as to the practical application of any proposed changes.

**Summary**

Overall, the pension environment must recognize that employer sponsored pension plans are voluntary in nature. Plans should be governed and managed with a view to balancing the interests of the plan members with the need to encourage the proper funding and preservation of the pension plan. Pension plan rules must respect the context of the specific arrangement reached between a plan sponsor and its members, and not attempt to impose broader social goals into a program that is governed by an employment relationship. We look forward to participating with FSCO in achieving the above objectives in an open, transparent, and timely manner.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bryan D. Hocking', written over a large, faint, circular watermark or background mark.

Bryan D. Hocking  
Chief Executive Officer