[UNOFFICIAL ENGLISH VERSION]

Montreal, August 16, 2019

Mr. Michel Després
President and Chief Executive Officer
Retraite Québec
Place de la Cité, 2600 Laurier Boulevard, 5th floor
Québec, Québec G1V 4T3

Subject: Comments on the draft Regulation to amend the *Regulation respecting supplemental pension plans* published on July 3, 2019 in the Gazette officielle du Québec (the "Regulation").

Dear Mr. President and Chief Executive Officer,

ACPM (The Association of Canadian Pension Management) 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 retirement income system in Québec and Canada. Our membership represents over 400 companies and retirement income plans that cover millions of plan members.
ACPM is pleased to provide comments on the Regulation. Given the issues and the time frame, our comments focus on the proposed scale to determine the target level of the stabilization provision. Our comments are in line with those we provided on Bill 57 as well as during our most recent annual meetings with Retraite Québec as part of our collaboration agreement.

Risk reduction strategies

We agree with the concept of recognizing the degree of risk of a plan for establishing a stabilization provision. Failing to allow a plan sponsor and its actuary to determine the level of the stabilization fund needed to achieve a stabilization objective adapted to their specific situation, as we have proposed in the past, we have suggested to the Government of Quebec (and subsequently to those of other Canadian provinces), to establish a two-dimensional scale to take into account the asset / liability matching (or the duration of the fixed income portfolio), in addition to the asset allocation between fixed income and variable income investments.

In recent years, several plan sponsors have implemented risk management strategies, including duration matching with the use of derivatives, which have the effect of improving benefit security under falling interest rate scenarios.

To the extent that the proposed scale does not value risk reduction strategies such as those using derivatives (for example, when a better duration matching does not reduce the target level of the provision), the scale really becomes a one-dimensional vector of target provision level.

We believe that the proposed scale should be improved to better recognize risk reduction strategies.

Private debt

Since the introduction of the scale, ACPM has recommended a more favorable treatment for private debt securities. We therefore support the proposition that it is now permissible to include private debt securities in the fixed income category if the investment manager certifies that they are of high quality, as specified in section 60.6 of the Regulation.

Real Estate and Infrastructure

The recognition of real estate or infrastructure investments, 50% as a variable income investment and 50% as a fixed income investment, and the 6-year limit on their assumed duration, are generally viewed as acceptable trade-offs. We are in favour of these investments being 100% reflected in the calculation of asset duration as suggested in new section 60.9 of the Regulation.

Annuity Purchase

Plan liabilities which would have been the subject of a "buy-in" subscription of annuities should be excluded for the purposes of calculating the stabilization provision, since the risks have essentially been transferred to an insurer.

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ACPM remains available to further elaborate on these comments, as well as on any measures to support the maintenance and implementation of defined benefit pension plans while improving their funding situation.

Sincerely,

Pierre Lavigne
Chair of the Québec Regional Council
ACPM

Ric Marrero
Chief Executive Officer
ACPM