



November 13, 2023

Grahame Johnson
Assistant Deputy Minister
Financial Sector Policy Branch, Finance Canada
Ottawa, Ontario K1A 0G5
Sent via email

Dear Assistant Deputy Minister Johnson:

RE: The Association of Canada Pension Management (ACPM) calls on Finance Canada to open a broad consultation regarding the decision to cease issuance of real return bonds.

ACPM is the leading advocacy organization for a balanced, effective, and sustainable retirement income system in Canada. Our private and public sector retirement plan sponsors and administrators manage retirement plans for millions of plan members.

This letter is a follow-up to a [letter sent to Hon. Deputy Prime Minister Chrystia Freeland on February 21, 2023](#), and in response to the comments made by Assistant Deputy Minister Grahame in the Standing Senate Committee on National Finance on October 3, 2023.

As stated in our previous letter, robust risk management practices are an integral part of pension plan security and sustainability and ceasing the issuance of real return bonds (RRBs) in Canada reduces retirement benefit security by reducing the ability of both pension plan sponsors and individual Canadians to manage risk. Many stakeholders, including ACPM members, were surprised by the announcement to cease issuance of RRBs as they were not aware of the consultation process.

We recommend Finance Canada open a broader and more in-depth consultation with financial market stakeholders to determine the appropriateness of issuing real return bonds going forward.

Retirement Benefit Security and Risk Management

Inflation is a key risk for all pensioners, including those who are part of a registered pension plan and those who are not. RRBs are an important tool in building a balanced portfolio that manages inflation risk. Pension plans and insurers offering annuities linked to the Consumer Price Index (CPI) will be less equipped to hedge their liabilities against inflation risk as a result of this decision. Members of capital accumulation plans may end up purchasing RRBs as part of a number of target date funds that use them as a component of their portfolios to manage inflation risk. The cessation of issuing RRBs will cause inflation to potentially have a negative impact on plan member benefit security across the pension universe.

Although alternatives to Canadian RRBs for managing inflation risk may be available, they are less direct at hedging Canadian inflation risk, are not always appropriate or available in all situations and are less viable than RRBs. Further, the trading of RRBs provides data to determine pension plan funding requirements and a reference point for insurers for the cost of settling benefits. Without that data, there will be increased volatility in pension plan liabilities and funding requirements.

Without the protections provided by RRBs, inflation hedging will be more expensive and Canadians who own (either through individual investments or participation in a pension plan) or start investing in inflation-linked products will experience greater costs.

Benchmarking and Pension Plan Funding

The yield on Canadian RRBs is used as a benchmark to determine various defined benefit pension plan liabilities, including liabilities that are used as a basis for funding requirements and financial statements. Without RRBs, plan sponsors will lose a key market-related signal of long-term inflation, which could negatively impact plan member retirement security and the accuracy of both financial statements and lump sum payouts to members who terminate from a pension plan.

RRB Demand

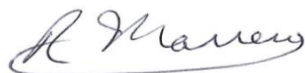
Low liquidity in the RRB market is not necessarily a signal that there is low demand. First, pension plans often use RRBs as part of a buy-and-hold strategy to reduce inflation risk. Second, managing inflation risk through RRBs is a dynamic process that depends on inflation expectations, current bond yields, and expected future bond yields. Historically low RRB yields may have reduced the desirability of real return bonds for a limited time, but that does not imply that the demand will always be suppressed.

Issuing RRBs at different term lengths could potentially support improved liquidity in the market.

Recommendation

ACPM recommends restarting the issuance of real return bonds to support the long-term sustainability of Canadian pension plans and a well-functioning pension system. We also recommend Finance Canada open a broader and more in-depth consultation to gather feedback from financial market stakeholders.

Sincerely,



Ric Marrero
Chief Executive Officer, ACPM

CC:

Hon. Christy Freeland, Deputy Prime Minister and Minister of Finance

Erin Hunt, Director General, Financial Crimes and Security Division, Department of Finance Canada