ACPM | ACARR

The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

July 15, 2022

Henri Boudreau
Managing Director
Property and Casualty Insurance Group, Insurance Supervision Sector
Office of the Superintendent of Financial Institutions
255 Albert Street
12th Floor
Ottawa, Ontario
K1A 0H2

Dear Mr. Boudreau,

ACPM is the leading advocacy organization for plan sponsors and administrators in the pursuit of a balanced, effective and sustainable retirement income system in Canada. We represent retirement plan sponsors, administrators and trustees in the private and public sector and our membership represents retirement income plans that cover millions of plan members.

ACPM is pleased to respond to OSFI's request for input on OSFI's plan to expand the scope of *Guideline E-23* beyond federally regulated deposit taking institutions to also include federally regulated insurance companies and federally regulated pension plans. This consultation follows OSFI's Blueprint for Transformation and OSFI's consultation on Pension Investment Risk Management. These initiatives appear to be moving towards a one-size-fits-all approach across the diverse areas that OSFI regulates. Such an approach has the potential to not accurately, nor fully reflect, the many legal and other differences between banks, insurance companies and pension plans.

We appreciate OSFI's vision of promoting unwavering public confidence in a sound financial system across the various areas that OSFI regulates. However, each of these areas has, and is subject to, very different:

a) legal and legislative regimes;

b) structures and frameworks through which they operate;

c) legal duties/standard of care and;

d) focus (e.g., consumer products versus employee compensation).

Given this background, generally, a single policy framework for all would not be appropriate, unless it fully appreciates, and clearly reflects, the very different regulatory needs and structure of each area.

However, comprehensive policies (even if properly reflective of different regulatory needs etc.) would likely be unwieldy and not user-friendly for those institutions seeking to comply with the guidance. Accordingly, we recommend that OSFI pursue separate policies/guidance for each of the areas it regulates.

By pursing separate policies/guidance by sector, OSFI can better ensure that the many differences between the areas it regulates are respected and properly reflected in its policies and guidance. This would also better ensure better adherence to such policies/guidance as it would enable the entities in each of OSFI's areas of regulatory oversight to more easily access and act on the policies/guidance applicable to them.

Public confidence in a sound pension system centers around three aspects:

- protecting pension plan members benefits, while allowing reasonable risks to be taken;
- being sufficiently flexible to accommodate a range of pension solutions across multiple jurisdictions; and
- ensuring the retirement income system is adequate, affordable and sustainable.

Aligning pension regulation with banks and federally regulated insurance companies, would emphasize the first objective above. However, experience has shown a high level of benefit security for federally registered defined benefit plans already exists and current pensioners are well protected. However, defined benefit plan coverage in the private sector, and pension coverage in general, has been on a strong decline over the past two decades. Further regulation of the defined benefit plans would accelerate the downward shift. To promote confidence in the pension system, emphasis should be aimed at improving pension coverage and benefit adequacy for future generations, rather than increasing the already high administrative burden with ill-fitting guidance.

In light of the above, ACPM is deeply concerned with the proposed expansion of E-23 specifically, which bears intentions to ensure sound risk modeling exists at the enterprise-wide level.

First, looking at risk at an enterprise level for most pension plans would encompass not only the plan, but the sponsoring organization as well, which OSFI does not typically have regulatory jurisdiction over. Another unique characteristic of pension plans is that all contributions are deposited to a trust, and generally cannot be removed from that trust once made, whereas financial institutions can ultimately recoup margin through future emerging profits returned to shareholders.

Second, focusing on the pension plan only, few plans would have propriety models of the type described by the guidelines. The most common risk management models used in pension plans are those underlying asset/liability studies. However, such studies are normally conducted by independent external providers who are responsible for the development and maintenance of their models, in accordance with their governance structure and professional responsibilities. Also, OSFI's consultation paper on Pension Investment Risk Management found widespread application of asset/liability modeling and did not identify this as an area where guidance was necessary. Other models, such as those used for actuarial valuations or investment managers, are also subject to independent oversight.

Providing guidance and expectations around the risk management of pension plans, where necessary, is better developed by the Canadian Association of Pension Supervisory Authorities ("CAPSA") as it will promote more consistency and confidence in pension regulation, nationwide. This pension harmonization is more important to pension stakeholders than consistency with banks and insurance companies.

We appreciate your consideration of our comments and can be available if we can be of further assistance.

Sincerely,

Ric Marrero
Chief Executive Officer
ACPM

cc: Benoit Brière, Director, Supervision, Private Pension Plans Division, OSFI
Kim Page, Director, Private Pension Plans Division, OSFI