

Mr. Mathew Ou
Senior Policy Consultant, Pension Division
Financial Services Commission of Ontario
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Dear Mr. Ou:

We are writing on behalf of the Pension Task Force of the Issues and Policy Advisory Committee of Financial Executives International Canada in response to your invitation to pension stakeholders to provide inputs on the investment monitoring model set out in the "Consultation Paper, A Proposed Risk-based Investment Monitoring Model for Supervising Defined Benefit Pension Plans," July 2004. Comments in this letter reflect the views of our Committee and do not necessarily represent the views of the full membership of Financial Executive International Canada.

The numbering of the comments below refers to the four *Issues to be Addressed* on page 13 of the paper.

1. We applaud this attempt to assess pension plan risk. However we do not believe the approach outlined and the detailed questions and scoring identified in the paper will effectively indicate which pension plans should be subjected to additional scrutiny. Many of the examples, rationale for criteria and associated point scores provided in the proposed criteria of Appendix C appear to be arbitrarily determined and in some cases are not necessarily indicative of a pension plan which is in trouble in relation to its liabilities and supporting sponsors. We suggest that FSCO refine its model through consultations with other financial services regulators. For instance, how do OSFI personnel determine their watch list for insurance companies, chartered banks and/or their associated pension plans? We also note that OSFI personnel could possibly provide helpful counsel to FSCO as they use established risk measurement procedures to assist in quantifying the diverse risks associated with conventional asset classes and on various derivatives instruments – both phenomena being more relevant than compliance with plan governance documents. We are concerned that regulators have had a tendency to make assessments of the quality of pension plan funding without taking into adequate account the associated liability structure of the pension plan and the average age of plan members. Any guidelines for prudent investment must take account of the nature and amount of the pension liabilities to be funded, the demographic makeup of plan membership, and the financial strength of the sponsor and its size relative to the pension plan and any plan deficit. For instance a plan with only active members with an average remaining working life of 30 years may very well or prudently invest a material proportion of plan assets in real estate. A plan with only pensioners should consider lower risk investments, such as those with good credit quality and high liquidity, which provide an appropriate level of cash to pay for the pensions of its members. A plan in a deficit position with a sponsor in bankruptcy protection should be of more concern than a plan with a sponsor with significant assets and an investment grade credit rating.

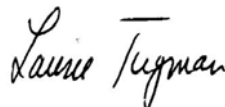
2. We find the adequacy of the screening approach and criteria questionable for the reasons noted above. The proposed Investment Information Summary (IIS) is repetitive in that it duplicates information FSCO already receives. We believe that answers to additional carefully written questions in the AIR (or only if necessary, a separate document), when read in conjunction with the audited financial statements, could provide an acceptable level of initial risk screening.
3. We strongly disagree with the proposal to require third party certification in addition to that of the plan administrator. It is unnecessary, costly and repetitive of the audit process employed by the statutory auditor of the plan assets and the assessment of liabilities by the appointed plan actuary. FSCO receives annually an independent audit opinion on the financial statements of the plan assets prepared to comply with Section 76 of the regulations to Pension Benefits Act (PBA). Audited financial statements demonstrate compliance with the written statement of investment policies and procedures (SIPP) . The auditor would have noted any non-compliance in his audit report. We also believe the auditor could note compliance to this and/or any other aspect of plan governance. If you accept our form of additional information then third party certification would not be relevant.
4. We agree that some pension funds should not be required to complete the supplemental information filing. In addition to those situations mentioned in the consultation paper, we suggest that those plans invested in balanced pooled funds (actively or passively managed) and those having less than \$10 million in assets, subject, of course, to our comments on plan liabilities and plan sponsor, should be exempt from the filing requirements
If you introduce a risk rating system, we feel it would make financial sense to risk rate pension benefit guaranty corporation (PBGC) premiums. Plans in a high-risk investment position and/or those assuming high risks with benefit liberalizations should pay more for provincially sponsored PBGC insurance.

In conclusion we believe that a risk-based review of pension plans is appropriate. We believe the proposal outlined in the discussion paper is a good first attempt. However, we believe the proposal as drafted would create significant additional costs for defined benefit plans, generate additional fees to consultants, and more likely only provide confirmation of pension plans already known to be in trouble rather, than providing an early warning of increasing risk and mounting problems. The additional administrative burden could well become another incentive to increase the move by plan sponsors to defined contribution plans.

We appreciate the opportunity to provide input on the consultation paper. We would be happy to participate in any subsequent consultations with you or to discuss your proposal and our comments on it in a face-to-face meeting.



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