Pension Investment
Association of Canada
Association canadienne des
gestionnaires de caisses de retraite

April 8, 2020

Lynn Hemmings
Director General
Financial Sector Policy Branch
Department of Finance Canada
90 Elgin Street
Ottawa, ON K1A 0G5
Via Email: lynn.hemmings@canada.ca

Re: COVID-19

Dear Ms. Hemmings,

The purpose of this letter is to provide feedback from the Pension Investment Association of Canada (PIAC) on actions we urgently believe should be taken to assist federally regulated pension plans as a result of the COVID-19 crisis.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over $2 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC's positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

Short-term measures

Many companies are experiencing dramatic declines in operating cash flow and require short-term relief to ensure that scarce capital be used to maintain operations, jobs, and investment. We therefore recommend that the federal government allow companies to opt out of making any special payments for a period of 6-12 months, or until greater visibility on economic recovery is apparent. We recommend that companies be required to inform OSFI of such actions, but that no other conditions or approval requirements by applied.

We also recommend that Finance work with the Bank of Canada to ensure that pension plans have direct access to the recently announced Bank of Canada Contingent Term Repo Facility to manage issues related to liquidity stress in the markets. Market conditions remain fragile and most pension plans are managing cash tightly to avoid punitive asset sales to meet cash requirements. Direct access to the Bank of Canada would provide an important backstop in an environment where commercial bank counterparties are tightly rationing their balance sheets.

Mid-term measures

From a mid-term perspective, we recommend that the federal government be creative and flexible in terms of permitting companies to manage the likely large increases in pension deficits that could arise over the course of the year. We also recommend the government not to apply onerous approval or qualification requirements for companies to gain access to relief measures. Diverting scarce investment capital into pension funds will not help rebuild the economy following the COVID-19 disruption.

In this regard, we think the following are some of the options to consider, recognizing that there may be many others, and we encourage federal officials to be open to discussions with individual companies to consider relief measures that are most relevant to their individual situation.

- Indefinite postponement of the changes proposed by OSFI in their consultations on actuarial standards, in particular as they apply to application of the Replicating Portfolio discount rate methodology
- Provide all federal plans with the option to use the Replicating Portfolio approach for 2020 and 2021
- Extension of solvency amortization period to 10 years (or longer)
- Increase the limit on the use of letters of credit
- Base 2021 funding requirements off the December 2019 valuation

Administrative Relief

The operational challenges related to operating in the current environment also argue in favour of a flexible approach to administrative timelines. In particular, we recommend postponement and/or forbearance with regard to filing timelines for such things as returns, employee statements and actuarial valuations. And plans would benefit from increased flexibility around the use of electronic communications and electronic declarations for purposes of plan administration.

Fundamental solvency reform

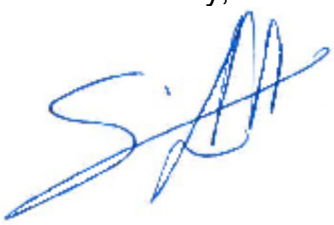
We recommend again that the federal government reconsider its stance with regard to more fundamental reform of the solvency funding regime. The federal funding regime has required temporary fixes and relief measures on a consistent basis over the past decade which is indicative of the need for substantive reform. Moving in the same direction as many provincial governments have moved in recent years is an obvious approach to aligning pension regulations nationally while maintaining an appropriate balance between funding flexibility and member protection. The key elements that we have advocated for in this regard include:

- Single funding measure which could include a solvency funding level at a reduced threshold such as 85%, combined with enhancements to the going concern funding rules
- Solvency reserve accounts
- Legal discharge upon annuitization

Finally, we recommend that the federal government eliminate the borrowing prohibitions for defined benefits plans contained in the Income Tax Act. Similar to the case which existed for many years with regards to the foreign property rule, there is a disconnect between the tax rules, standard market practice and the position of policy and regulatory officials with regard to pension practice. This disconnect is not cost-free as it creates sub-optimal structures and additional cost for pension plans. Now would be an opportune time to eliminate this restriction.

This is an exceptionally challenging time for the Canadian economy and the policy response by federal authorities has to date been bold and impactful. We encourage you to continue in the same vein as you consider the challenges facing pension plan sponsors.

Yours sincerely,



Simon Fréchet
Chair

cc. Kathleen Wrye, Senior Project Leader, Finance Canada

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