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

August 22, 2007

David Wild
Chair, Canadian Association of Pension Supervisory Authorities
c/o CAPSA Secretariat
5160 Yonge Street
17th Floor, Box 85
North York, ON M2N 6L9

Dear Mr. Wild,

Re: CAPSA Strategic Plan 2008-2011

PIAC is the representative association for pension funds in Canada in pension investment and related matters, such as funding. The member funds of PIAC collectively manage over $890 billion in assets on behalf of millions of Canadians.

We thank you for allowing us to provide input into your upcoming strategic plan.

As per our earlier August 2001 submission, PIAC again urges CAPSA to fully adopt the prudent person standards for investing pension plan assets and to eliminate the various quantifiable rules pertaining to portfolio diversification, industry concentration, and passive investment. It is our understanding that Canada is the only developed country that uses quantitative limits to the degree outlined in the PBSA, instead of the more universally applied prudent person standards for investing. More detail is provided in the attached *Recommendations for Modifications to Pension Plan Investment Rules* submitted to CAPSA in August 2001.

The elimination of the 30% foreign content rule now allows Canadian pension plan sponsors to better manage the risk of their investment portfolios by allowing increased diversification of assets outside of Canada. However, the 10% single issuer rule restricts investments in such liquid assets as US Treasury bonds and other similar bonds of US government agencies. While we believe that CAPSA should eliminate all quantitative limits, an immediate exemption should be made from the 10% issuer rule for US Treasury bonds and bond of US government agencies, similar to the exemption currently provided for Canadian bonds issued by the Canadian government issuers. It should be noted that US and UK pension law do not impose a quantitative limit to ensure diversification but rather have a general requirement for diversification. The 10% issuer rule is an arbitrary rule that does not ensure diversification.

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PIAC recommends the elimination of the rule that limits a pension plan from owning up to 30% of the voting shares of a corporation. This out-dated regulation does not lend itself to the current realities where pension plans may own up to 100% of the equity of a company. The current rule impedes a pension administrator's ability to protect its interests by restricting it to electing no more than 30% of the directors of the company in which it owns more than 30% of the equity. The regulation requires pension plans to create complex and costly financial structures in order to protect their investments. This imposes unfair and non-competitive constraints on pension plans in relation to other investors who do not have a similar constraint and unnecessarily limits investment opportunities. Pension plans in other OECD countries do not have any restrictions on the percentage ownership of voting shares.

We also urge CAPSA to encourage the Federal Department of Finance to eliminate or increase the 10% upper limit on accumulated surpluses in the Income Tax Act. This would help to remove a current disincentive for plan sponsors to contribute to pension plans when they are able to and would help improve the funding and solvency positions of defined benefit plans.

Finally, PIAC urges CAPSA to continue its efforts to reconcile differences in investment rules for pension funds, mutual funds, segregated funds and other pooled investment funds in order to clarify the investment rules that are to be adhered to by plan sponsors who invest in these funds.

Please feel free to contact us if we can be of assistance to you.

Respectfully submitted on behalf of the Members of the Pension Investment Association of Canada.

Yours truly,

Terri Troy
Chair

Enc. Submission to CAPSA Recommendations for Modifications to Pension Plan Investment Rules dated August 2001