

• **Canadian Association of Pension Supervisory Authorities**

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**Association canadienne des organismes de contrôle des régimes de retraite**

**CAPSA PENSION GOVERNANCE GUIDELINE  
AND IMPLEMENTATION TOOL**

**DRAFT FOR COMMENT**

**A Report prepared by the  
Canadian Association of Pension Supervisory Authorities (CAPSA)  
Pension Plan Governance Committee**

**May 25, 2001**

# CAPSA

May 25, 2001

Dear Pension Industry Stakeholder:

## Re. **CAPSA Pension Governance Guideline and Implementation Tool**

On behalf of the Canadian Association of Pension Supervisory Authorities (CAPSA), we are pleased to enclose two documents in draft form for your review and comment:

- The *CAPSA Pension Governance Guideline*, which is a broad, flexible outline of key pension governance principles; and
- The *CAPSA Pension Governance Implementation Tool*, which is designed to help pension plans adopt the pension governance principles set out in the *CAPSA Pension Governance Guideline*.

CAPSA believes that good pension plan governance is essential if plan members are to receive the benefits they have been promised. Building on important work by labour organizations, industry associations and pension regulators, these documents have been prepared to provide guidance to pension plans of all types and sizes, in all jurisdictions of Canada.

In particular, CAPSA would appreciate your comments on the following questions:

- Does the Guideline effectively capture the most important aspects of pension governance?
- Does the Implementation Tool usefully complement the Guideline? Can it be effectively utilized by plans in different situations?
- How might the documents be modified to make them even more responsive to the needs of plans of different types and sizes?
- Once the Guideline and Implementation Tool are adopted, how might they be usefully implemented across the country?

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Canadian  
Association of  
Pensions  
Supervisory  
Authorities

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des organismes  
de contrôle  
des régimes  
de retraite

Please forward your written comments on the CAPSA Pension Governance Guideline and Implementation Tool to:

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We look forward to receiving your comments by July 31, 2001. Questions arising from this consultation paper may be directed to any of the members of the CAPSA Pension Plan Governance Committee identified in Appendix B.

Please note that this Guideline and Implementation Tool have been prepared to contribute to the adoption of good pension plan governance in all Canadian jurisdictions. They do not reflect the official position of any provincial or federal government or agency.

Yours very truly,

Sheralyn Miller  
Chair, CAPSA  
Superintendent of Pensions  
British Columbia Ministry of Labour

Nurez H. Jiwani  
Chair, CAPSA Pension Governance Committee  
Director, Policy & Communications  
Financial Services Commission of Ontario

***CAPSA PENSION GOVERNANCE GUIDELINE  
AND IMPLEMENTATION TOOL***

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***May 25, 2001***

# Table of Contents

INTRODUCTION .....	1
<b>I. PENSION PLAN OBJECTIVES</b>	
<b>Principle 1: The pension plan should have clearly stated objectives which are documented and made available to plan members and beneficiaries</b>	
1.1 Pension Plan Objectives .....	2
<b>II. GOVERNANCE STRUCTURE</b>	
<b>Principle 2: There should be clear delineation and documentation of roles, responsibilities and accountabilities of all participants in the governance structure</b>	
2.1 Roles / Responsibilities / Accountabilities .....	2
<b>Principle 3: The governing body must fulfil its fiduciary responsibilities to plan members and beneficiaries</b>	
3.1 Fiduciary Responsibilities of the Governing Body.....	3
<b>Principle 4: The governing body should have the right mix of skills and experience and the members of the governing body should collectively demonstrate the skills, capability and dedication required to fulfil their governing responsibilities</b>	
4.1 Governing Body Competency and Composition.....	4
4.2 Sub-Committee Composition .....	5
<b>Principle 5: Members of the governing body should be provided with appropriate training and undertake ongoing education</b>	
5.1 Orientation / Ongoing Education.....	5
<b>Principle 6: There should be a procedure for the selection and succession planning of members of the governing body and senior management</b>	
6.1 Selection and Succession planning: Governing Body and Senior Management.....	5
<b>III. COMMUNICATION</b>	
<b>Principle 7: The governing body should receive appropriate, timely and accurate information</b>	
7.1 Distribution of Information to the Governing Body .....	6

<b>Principle 8: A communication policy should be established for plan members and beneficiaries to ensure transparency and accountability</b>	
8.1 Communication Policy: Plan Members and Beneficiaries. ....	7

**IV. INTERNAL CONTROLS**

<b>Principle 9: A code of conduct and control mechanism for conflicts should be established</b>	
9.1 Code of Conduct and Control Mechanism for Conflicts. ....	8

<b>Principle 10: Pension plans should have an appropriate internal control framework</b>	
10.1 Internal Control Framework. ....	9

<b>Principle 11: The governing body should have appropriate mechanisms in place to oversee the administration of the pension plan and ensure compliance with legislative requirements</b>	
11.1 Oversight of Plan Administration and Compliance with Legislative Requirements. ....	10

**V. PERFORMANCE MEASURES AND ASSESSMENT**

<b>Principle 12: Objective performance measures for decision makers and pension plan performance should be established</b>	
12.1 Performance Measures - Decision Makers. ....	11
12.2 Performance Measures - Pension Plan Performance. ....	11

<b>Principle 13: A governance self-assessment should be conducted and reported to pension plan members, beneficiaries, employer(s) and bargaining agent(s)</b>	
13.1 Governance Self-Assessment and Reporting. ....	12

Glossary of Terms. ....	13
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**APPENDIX A: CAPSA PENSION GOVERNANCE IMPLEMENTATION TOOL**

**APPENDIX B: CAPSA PENSION PLAN GOVERNANCE COMMITTEE MEMBERS**

# CAPSA PENSION GOVERNANCE GUIDELINE

## INTRODUCTION

Pension plan governance refers to the processes used in the management, oversight and administration of a pension plan. CAPSA believes that good pension plan governance is essential if plan members are to receive the benefits they have been promised.

Pension legislation regulates plan governance by identifying who may be a plan administrator and what the plan administrator's responsibilities are. The administrator is usually the employer who established the plan, but may also be a board, a pension committee, an insurance company, a bargaining agent or another body established by law. Pension legislation defines the pension plan administrator as the governing body that is ultimately responsible for oversight of the plan.

An effective governance system establishes a framework for the division of responsibility and the accountability of all participants in the pension process. It considers all facets of pension plan management, including funding, investment and benefit administration. Effective governance provides reasonable oversight and enhances benefit protection, but does not discourage the establishment of pension plans.

Good governance is important for pension plans as it is essential to the fulfilment of fiduciary obligations. A good governance structure serves to minimize risks and maximize efficiencies. Good governance promotes the timely and cost-effective delivery of pension benefits and promotes the administration of the plan in the best interests of plan members and beneficiaries. Good governance requires appropriate control mechanisms that encourage good decision making, proper and timely execution, clear accountability, and regular review and assessment. Good governance contributes to positive pension plan performance and demonstrates due diligence on the part of the governing body.

The *CAPSA Pension Governance Guideline* is a broad, flexible outline of key governance principles. Different types and sizes of plans, however, may require different governance practices. Although it is strongly recommended that all pension plans adopt governance processes consistent with the principles identified in the *CAPSA Pension Governance Guideline*, plans will need to adapt their governance practices to accommodate their specific circumstances and resources.

The *CAPSA Pension Governance Guideline* recommends principles for effective pension plan governance, but does not address operational roles and responsibilities. While employers or bargaining agents may establish a pension plan, determine and amend its provisions, and even terminate the plan subject to relevant legislative requirements, contractual agreements and plan provisions, these are operational activities rather than governance responsibilities.

Many smaller pension plans and multi-employer pension plans established pursuant to a collective agreement may have a single body with both operational and governance responsibilities. In these situations, dual roles should be clearly identified and decisions made in different capacities should be carefully documented.

The *CAPSA Pension Governance Guideline* builds on important work by labour organizations, industry associations such as the Pension Investment Association of Canada (PIAC) and the Association of Canadian Pension Management (ACPM), and pension regulators such as the Office of the Superintendent of Financial Institutions (OSFI).

All pension plans in Canada are encouraged to determine whether their current governance structures are effective and strive to achieve the best practices set out in the *CAPSA Pension Governance Guideline*.

The *CAPSA Pension Governance Implementation Tool* (see Appendix A) has been prepared to help pension plans adopt the pension governance principles set out in the *CAPSA Pension Governance Guideline*.

# **I. PENSION PLAN OBJECTIVES**

**PRINCIPLE 1: THE PENSION PLAN SHOULD HAVE CLEARLY STATED OBJECTIVES WHICH ARE DOCUMENTED AND MADE AVAILABLE TO PLAN MEMBERS AND BENEFICIARIES.**

## **1.1 PENSION PLAN OBJECTIVES**

Pension plans should have objectives that explain why the pension plan exists and affirm the plan's intent to achieve its goals.

The pension plan's objectives should be clearly documented and should be made available to all stakeholders. The plan's objectives provide guidance in setting funding and investment policies, and set goals for the administration of the pension plan.

### *Sample Plan Objectives:*

*The pension plan's mission is to advance the financial benefit security of all plan members and beneficiaries by providing fully funded pension benefits for reasonable and stable contribution rates. The plan will:*

- *Provide efficient and effective investment management designed to achieve the highest possible return at an acceptable level of risk*
- *Create and maintain an environment that promotes the interests of plan members and beneficiaries*
- *Provide high quality, cost-effective service to plan members and beneficiaries*
- *Provide effective and efficient governance processes.*

# **II. GOVERNANCE STRUCTURE**

**PRINCIPLE 2: THERE SHOULD BE CLEAR DELINEATION AND DOCUMENTATION OF ROLES, RESPONSIBILITIES AND ACCOUNTABILITIES OF ALL PARTICIPANTS IN THE GOVERNANCE STRUCTURE.**

## **2.1 ROLES / RESPONSIBILITIES / ACCOUNTABILITIES**

There should be clearly defined and documented roles, responsibilities and accountabilities for all participants in governance (oversight and policy-making), management and operation of the pension plan.

The pension governance structure, roles and responsibilities, accountabilities and reporting relationships (i.e. chain of delegation) should be clearly documented and communicated to all participants.



All roles and responsibilities should be identified and assigned in accordance with appropriate commitment, knowledge, experience and time availability.

The governing body is expected to oversee and assume responsibility for the plan, but is not expected to manage the plan on a day-to-day basis. The governing body can delegate management functions, but retains ultimate responsibility and accountability for supervision and ensuring that the promised benefits are provided.

The governance role consists of establishing the plan's objectives, policy, goals, strategy and governance structure as well as performing high-level monitoring. The management role consists of assisting and supporting the governing body, and translating their decisions into operational plans for execution by staff and others. The operating role consists of implementation of the objectives, policy and strategy by staff on a day-to-day basis.

### **2.1.1 "Smaller" Pension Plans**

Where governance and management functions are performed by the same person(s) there must be a clear recognition and understanding of the different roles and responsibilities of each function. Decisions and actions taken under the separate roles should be clearly documented.

Clear separation of the governance and management functions in a "smaller" pension plan does not necessarily require separate persons to perform different functions.

## **PRINCIPLE 3: THE GOVERNING BODY MUST FULFIL ITS FIDUCIARY RESPONSIBILITIES TO PLAN MEMBERS AND BENEFICIARIES.**

### **3.1 FIDUCIARY RESPONSIBILITIES OF THE GOVERNING BODY**

The governing body has a duty to act in good faith and in the best interests of the plan members and beneficiaries of the pension plan.

The pension governance process should facilitate the discharge of the governing body's fiduciary duties. This may require judicious advice and impartial recommendations from appropriate professional advisers.

A fiduciary relationship exists when the fiduciary has scope for the exercise of discretion or power, and can exercise this power or discretion to affect a beneficiary's interests. Investment managers are fiduciaries; other professional advisors and service providers may also be fiduciaries depending on the circumstances. The greater the discretionary powers of the fiduciary, the greater the scope of their fiduciary duties.

The governing body has a duty to act in good faith in the best interests of the beneficiaries of the pension plan, to treat members impartially and with loyalty, to exercise the care, skill and diligence of a prudent person, to interpret the plan terms fairly, impartially and in good faith, and to prevent personal interests from conflicting with those of the plan.

Matters that fall within the fiduciary obligations of the governing body include ensuring prudent investing (including investment policy development and effective implementation), proper benefit payments, proper remittances of contributions, appropriate communications to plan members, and compliance with legislation and plan policies.

### 3.1.1 Member-directed Defined Contribution Plans

The governing body should take into account specific considerations about the selection of investment options offered to plan members.

The governing body should consider the following issues:

- who will make the investment decisions;
- whether members will invest the total account or just their contributions;
- the number and diversity of investment choices required to materially affect the potential returns and degree of risk;
- whether member representatives will participate in the selection of investment alternatives;
- how frequently the members can modify their investment choices;
- how performance and costs will be monitored; and
- what the default investment selections will be.

Member-directed defined contribution plans should provide enough investment options to satisfy the different risk tolerances and investment horizons of plan members. The governing body should provide members with appropriate tools to help them make informed investment choices.

### 3.1.2 Employers or Bargaining Agents Acting as the Governing Body

Where employers or bargaining agents also assume the role of the governing body, they must act in the best interests of plan members and beneficiaries.

When acting as the governing body, employers or bargaining agents must use discretion in a fair and impartial manner, and put the interests of plan members and beneficiaries above their own. Instances where conflicts may occur include the establishment of an investment policy, the payment by the sponsor of expenses directly out of the pension fund, ownership of surplus, plan mergers and conversions, and funding policy.

**PRINCIPLE 4: THE GOVERNING BODY SHOULD HAVE THE RIGHT MIX OF SKILLS AND EXPERIENCE AND THE MEMBERS OF THE GOVERNING BODY SHOULD COLLECTIVELY DEMONSTRATE THE SKILLS, CAPABILITY AND DEDICATION REQUIRED TO FULFIL THEIR GOVERNING RESPONSIBILITIES.**

## 4.1 GOVERNING BODY COMPETENCY AND COMPOSITION

The members of the governing body should collectively demonstrate the skills, capability and dedication necessary to fulfil their governing responsibilities. Where appropriate, the governing body should seek information and advice from qualified external advisors.

## **4.2 SUB-COMMITTEE COMPOSITION**

Where the pension governance structure includes sub-committees, the sub-committee members should collectively demonstrate the skills, capability and dedication necessary to fulfil their governing responsibilities. The sub-committees should have the right mix of skills and experience.

The governing body should delegate responsibilities to sub-committees where appropriate. The role and functions of the sub-committees should be clearly set out.

Possible committees include an investment committee, a governance committee, an audit committee, and a benefit committee.

## **PRINCIPLE 5: MEMBERS OF THE GOVERNING BODY SHOULD BE PROVIDED WITH APPROPRIATE TRAINING AND UNDERTAKE ONGOING EDUCATION.**

### **5.1 ORIENTATION / ONGOING EDUCATION**

The governing body members should have or acquire the knowledge and skills required to make informed decisions.

Members of the governing body should have or obtain an understanding of financial markets, risk management, actuarial principles, pension finance, relevant investment principles, good governance, benefit entitlements and regulatory or other requirements respecting the pension plan.

Members of the governing body should be provided with appropriate training and ongoing education.

Special attention should be paid to educating board members at the onset of their roles. This can be accomplished through formal orientation programs, handbooks and information booklets.

## **PRINCIPLE 6: THERE SHOULD BE A PROCEDURE FOR THE SELECTION AND SUCCESSION PLANNING OF MEMBERS OF THE GOVERNING BODY AND SENIOR MANAGEMENT.**

### **6.1 SELECTION AND SUCCESSION PLANNING: GOVERNING BODY AND SENIOR MANAGEMENT**

There should be a formal and transparent procedure for the selection of the governing body and senior management of the pension plan with appropriate selection criteria. A succession planning process should be established and reviewed periodically.

The selection and succession planning structure should deal with the term, selection, appointment/election and removal of members of the governing body and senior management of the pension plan. The term of the governing body members may vary depending on the type and context of particular plans.

### **III. COMMUNICATION**

#### **PRINCIPLE 7: THE GOVERNING BODY SHOULD RECEIVE APPROPRIATE, TIMELY AND ACCURATE INFORMATION.**

##### **7.1 DISTRIBUTION OF INFORMATION TO THE GOVERNING BODY**

Processes should be put in place to ensure that governing body members receive appropriate, timely, accurate, complete, consistent and easily comprehensible information so they may discharge their responsibilities effectively, and ensure that delegated responsibilities are fulfilled.

Processes should ensure that information related to all aspects of a pension plan, including investment activities, funding activities, benefits and operating activities are adequately addressed.

Information related to investment activities includes:

- (i) investment performance reports including
  - performance of each manager
  - effect of the plan's investment policy and strategy on returns
  - effect of investment management structure on returns
- (ii) reports on changes to any manager's ownership or investment philosophy
- (iii) risk management and compliance reports
- (iv) reports from management recommending changes related to investment activities

Information related to funding activities includes:

- (i) actuarial reports
- (ii) reports on funding status
- (iii) financial statements, including a comparison of expenses to budgets and other financial data

Information relating to benefits and operating activities includes:

- (i) reports on membership
- (ii) detailed reports on benefit calculation and payment activities
- (iii) reports detailing member complaints and action taken
- (iv) reports detailing actual and proposed communications
- (v) reports on internal control
- (vi) certifications from senior management and all external service providers and advisors confirming compliance with legislative requirements and pension plan policies

## **PRINCIPLE 8: A COMMUNICATION POLICY SHOULD BE ESTABLISHED FOR PLAN MEMBERS AND BENEFICIARIES TO ENSURE TRANSPARENCY AND ACCOUNTABILITY.**

### **8.1 COMMUNICATION POLICY: PLAN MEMBERS AND BENEFICIARIES**

A communication policy should be established for the disclosure of plan governance information to members and beneficiaries. Communication should be appropriate, timely, accurate, complete, consistent, cost-effective, useful, comprehensible and accessible.

The governing body should consider its fiduciary duties and standard of care when deciding what to disclose, the manner and form of disclosure, and to whom the information will be disclosed. The operations, administration and investments of the pension plan should be as transparent as possible.

#### **8.1.1 Plan Member and Beneficiary Concerns**

Pension plan members and beneficiaries have a right to voice their concerns, and have them appropriately addressed in a timely fashion.

The names and responsibilities of the governing body members and information regarding key contacts should be disclosed to plan members and beneficiaries.

#### **8.1.2 Defined Contribution Plans and Hybrid Plans**

The governing bodies of defined contribution and hybrid plans should explain the inherent risks of such plans to plan members and indicate that investment risks are borne by plan members.

#### **8.1.3 Member-directed Defined Contribution Plans**

A communication and education plan for plan members should be designed to ensure that plan members understand the inherent risks of member-directed defined contribution plans, the effects of risk versus return, the investment choices, and basic investment strategies.

The governing body of a member-directed defined contribution pension plan should ensure there is an appropriate communication and education plan in place. When developing education and communication strategies and policies, the governing body/plan sponsor must determine:

- members' needs, investment knowledge and different learning styles;
- how to best communicate to plan members the risks of a member-directed defined contribution plan, in particular, during times of low investment returns and high annuity costs;
- what information or investment counselling will be provided to plan members;
- how to educate plan members to make good investment decisions; and
- how to measure the effectiveness of communication and education policies.

The governing body should provide plan members with adequate initial information about the pension plan and educational material related to investments. The governing body should also provide plan members with adequate ongoing information to ensure they are aware of the performance of their investment options and capable of making informed decisions about their investment options.

Plan members should be made aware of the broader implications of their investment decisions on asset accumulation and estate planning and advised that they should seek external assistance where necessary.

The governing body should be aware of the difference between communication and advice, and the increased liability of providing advice. (Advice is individualized information that serves directly as the primary basis for a plan member's investment decisions while communication is general financial and investment information about markets and risks.)

## **IV. INTERNAL CONTROLS**

### **PRINCIPLE 9: A CODE OF CONDUCT AND CONTROL MECHANISM FOR CONFLICTS SHOULD BE ESTABLISHED.**

#### **9.1 CODE OF CONDUCT AND CONTROL MECHANISM FOR CONFLICTS**

A code of conduct should be established for the governing body, senior management and plan advisors in their role as fiduciaries. The code of conduct should set out required behaviour and establish a control mechanism for conflicts with a due process, a conflict of interest policy, and a review mechanism to ensure compliance with the code of conduct.

The governing body and senior management must always behave in a manner consistent with their fiduciary obligations. A process should be put in place to ensure that the code of conduct is effectively implemented and is also applied to plan advisors in their role as fiduciaries.

The conflict of interest policy should set out a procedure for the disclosure of conflicts of interest to identified decision makers in the governance process and to beneficiaries where appropriate. The policy should guard against both actual conflicts and the appearance of conflicts of interest.

There should be mechanisms in place to ensure that differences between the various interests represented on the governing body are appropriately resolved. A due process should allow governing body members unencumbered access to senior management and external advisors.

## **PRINCIPLE 10: PENSION PLANS SHOULD HAVE AN APPROPRIATE INTERNAL CONTROL FRAMEWORK.**

### **10.1 INTERNAL CONTROL FRAMEWORK**

Every pension plan should have an internal control framework to ensure that potential risks are addressed and appropriate controls are in place.

The governing body should understand and approve the framework and the written internal control policies supporting the internal control framework. There should be clear written rules and control processes regarding financial stability and plan funding, asset management, asset protection and expenses, outsourcing of functions and selection of service providers/professional advisers.

#### **(i) Financial Stability and Plan Funding Control Framework**

The governing body should monitor the financial stability of the pension plan and ensure the adequacy of plan funding. These steps include:

- assessing the adequacy of required contributions to meet current and future needs;
- investigating the sensitivity of the plan to economic and demographic conditions;
- determining the desired level of surplus needed as a cushion against potential downturns; and
- maintaining the desired level of benefit security (i.e. by recommending investment policy modifications, changes in contribution levels or benefit adjustments).

#### **(ii) Asset Management Control Framework**

An asset management control framework necessitates the establishment of investment policies and procedures in accordance with pension legislation, regulations and guidelines issued by pension regulators. The framework should facilitate the prudent management of pension assets and the detection of changes in policies or procedures of service providers/professional advisers. The asset management control framework should ensure that:

- assets are managed in compliance with applicable policies and procedures, pension legislation and regulations and guidelines issued by pension regulators;
- investment policies and procedures are documented and address permitted asset classes, policy asset-mix and permitted ranges, permitted investment instruments, and minimum diversification criteria;
- collateral margins on loaned securities are maintained;
- proxy voting procedures are followed;
- investment managers are in compliance with their mandates;
- appropriate performance benchmarks are developed and monitored; and
- assets are cost-effectively managed.

### **(iii) Asset Protection and Expense Control Framework**

A policy and process for asset protection and expense control should be established. The framework should set out clear written rules and guidelines regarding permissible disbursements, the separation of plan assets from other assets, and the use of the plan assets for purposes other than benefit payments which are consistent with pension legislation, regulations and the terms of the plan.

### **(iv) Outsourcing of Functions and Selection of Service Providers/Professional Advisers**

Procedures should be in place that address the decision to outsource functions. The governing body should establish criteria and a process for deciding what functions will be outsourced to service providers/professional advisers.

An impartial selection process with clearly stated selection criteria should be established for service providers/professional advisers. The governing body should ensure that appropriate written contracts are entered into and periodically reassess arrangements with service providers/professional advisers.

#### **10.1.1 Asset-related Fees**

If asset-related fees are charged to the plan or paid by members, the governing body should ensure the fees are reasonable and competitive.

#### **10.1.2 Multi-employer Pension Plans**

The governing body should ensure there is a delinquency control program with procedures for the collection of unremitted contributions and data, and remedies for non-compliance.

## **PRINCIPLE 11: THE GOVERNING BODY SHOULD HAVE APPROPRIATE MECHANISMS IN PLACE TO OVERSEE THE ADMINISTRATION OF THE PENSION PLAN AND ENSURE COMPLIANCE WITH LEGISLATIVE REQUIREMENTS.**

### **11.1 OVERSIGHT OF PLAN ADMINISTRATION AND COMPLIANCE WITH LEGISLATIVE REQUIREMENTS**

Every pension plan should have processes and standards in place to ensure that the pension plan complies with legislative requirements and pension benefits are paid to plan members and beneficiaries in accordance with the terms of the plan and legislative requirements.

#### **11.1.1 Pension Benefit Administration**

Processes and standards should be established to ensure administration of pension benefits in accordance with the terms of the pension plan and legislative requirements. The processes and standards should ensure that:

- the governing body implements and interprets plan provisions consistently with



- plan objectives;
- the governing body uses discretionary powers in a fair, transparent and objective manner;
- the governing body seeks clarification for unclear plan provisions;
- pension benefits are paid correctly;
- information transmitted to plan members and related calculations are accurate and subject to periodic audits; and
- complete and accurate records are maintained.

### **11.1.2 Compliance with Legislative Requirements**

The governing body should have an internal control framework in place to ensure compliance with minimum legislative requirements, including filing requirements, and policies established by the governing body. The governing body should have skilled personnel to meet compliance obligations and seek professional assistance when necessary.

## **V. PERFORMANCE MEASURES AND ASSESSMENT**

### **PRINCIPLE 12: OBJECTIVE PERFORMANCE MEASURES FOR DECISION MAKERS AND PENSION PLAN PERFORMANCE SHOULD BE ESTABLISHED.**

#### **12.1 PERFORMANCE MEASURES – DECISION MAKERS**

Objective performance measures should be established for all key decision makers including the governing body, senior management, staff, custodians, investment managers, third-party benefit administrators and professional service providers/professional advisers. Performance should be regularly evaluated against the performance measures and results should be reported to appropriate stakeholders. Performance measures should be reviewed regularly.

Performance evaluations should be based on impartial assessment, which may require independent professional advice. Recommendations for change should be directed to the group to which decision makers are accountable. Mechanisms and follow-up actions should be established to rectify inadequate performance.

#### **12.2 PERFORMANCE MEASURES – PENSION PLAN PERFORMANCE**

Objective comprehensible performance measures should be used to measure the performance of the pension plan.

Performance measures used by pension plans should be quantified wherever possible and reviewed over appropriate time periods. Performance measures may be modified to reflect changing needs.

Performance objectives and measures should be tailored to each plan's specific requirements

and should include measures for plan funding, asset management and benefit administration. Annual objectives for the management of the plan should be set and progress should be reviewed. Results should be reported to appropriate stakeholders.

**PRINCIPLE 13: A GOVERNANCE SELF-ASSESSMENT SHOULD BE CONDUCTED AND REPORTED TO PENSION PLAN MEMBERS, BENEFICIARIES, EMPLOYER(S) AND BARGAINING AGENT(S).**

**13.1 GOVERNANCE SELF-ASSESSMENT AND REPORTING**

The governing body should periodically review governance procedures to ensure the objectives of the pension plan are effectively pursued. Best practice for self-assessment reporting would require the governing body to periodically report to pension plan members, beneficiaries, employer(s) and bargaining agent(s).

Every pension plan should have a mechanism in place to assess the performance of the governing body and the governance structure of the pension plan on a regular basis. Ongoing review of the governance procedures will allow for the determination of the effectiveness of a pension plan's governance structure and operations in meeting the pension plan objectives and discharging the governing body's fiduciary responsibilities. The governance structure should be modified as required to ensure its effectiveness.

Self-assessment should be based on impartial assessment, which may require independent professional advice. Self-assessment can be tailored to the circumstances of the pension plan. Pension plans can utilize the *CAPSA Pension Governance Implementation Tool* as a self-assessment tool.

Best practice for self-assessment reporting would require the governing body to periodically report to pension plan members, beneficiaries, employer(s) and bargaining agent(s), setting out how they complied with or exceeded the pension governance guideline, and explaining any non-compliance. Best practice should be followed once the pension plan has the appropriate governance structures in place. Progress in developing and complying with an appropriate governance structure should be assessed over time and reported to plan members.

# GLOSSARY OF TERMS

**Administrator:**

The administrator is responsible for running the pension plan. The administrator is usually the employer who established the plan, but may also be a board, a pension committee, an insurance company, a bargaining agent or another body established by law.

**Beneficiary:**

A beneficiary is an individual, other than a plan member, entitled to a benefit.

**Defined Benefit Plan:**

A defined benefit plan is a pension plan where the pension benefit to be provided is based on criteria such as number of years of plan membership and career or final earnings. Employees may or may not contribute to the pension plan.

**Defined Contribution Plan:**

A defined contribution plan (also known as a money purchase plan) is a pension plan with a specified contribution formula. Employees may or may not contribute to the pension plan. Contributions are recorded on an individual account basis. The benefit a member will receive on retirement is calculated at the date of retirement based on accumulated contributions and investment returns.

**Governing Body:**

The governing body is the individual(s) or entity that is ultimately responsible for pension plan oversight. Pension legislation defines the pension plan “administrator” as the governing body.

**Jointly-trusteed:**

A jointly-trusteed pension plan is a plan that is governed by a board comprised equally of employee and employer representatives.

**Multi-employer Pension Plan:**

A multi-employer pension plan (MEPP) is a pension plan that allows two or more unrelated employers to contribute to a single pension fund. Some MEPPs are sponsored and/or administered by a bargaining agent.

The fund is established by an agreement, statute or municipal bylaw. MEPPs are subject to special rules since they differ significantly from single-employer pension plans.

**Negotiated Pension Plan:**

A negotiated pension plan is a plan where the terms are negotiated by a bargaining agent and employers and contained in a collective agreement.

**Pension Fund:**

The pension fund refers to the assets of the pension plan, which are held separately and apart from other assets.

**Plan Member:**

Plan members include both active and non-active plan members.

**Senior Management:**

Senior management of a pension plan refers to the group of individuals, aside from the governing body, that is in a position to influence decisions made on behalf of the pension plan.

**Stakeholders:**

Stakeholders include plan members, beneficiaries, administrators, employers and bargaining agents.

***CAPSA***  
***PENSION GOVERNANCE IMPLEMENTATION TOOL***

DRAFT FOR COMMENT

May 25, 2001

Appendix A

# CAPSA Pension Governance Implementation Tool

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## INTRODUCTION

The *CAPSA Pension Governance Implementation Tool* (the “Tool”) has been prepared to help pension plans adopt the best practices found in the *CAPSA Pension Governance Guideline*. The Tool addresses the implementation of good governance principles for all types and sizes of pension plans, and contains particular recommendations for defined contribution plans, member-directed defined contribution plans, negotiated pension plans, jointly-trusted plans, multi-employer plans and “smaller” plans.

The Tool can be used by pension plans to determine which principles of good governance have been instituted and determine what action steps should be taken to improve governance of their pension plans.

The Tool can be adapted by pension plans to suit their particular needs. For instance, timelines, priorities, and the names of designated individuals with implementation responsibilities can be added to the Tool.

To be fully effective, the Tool should be completed honestly, objectively and realistically by the individual(s) with the best knowledge of each issue and approved by the highest level of pension governance authority.

Completed By:

_____	_____	_____	_____
Name	Title	Principles completed	Date

_____	_____	_____	_____
Name	Title	Principles completed	Date

Approved By:

_____	_____	_____
Signature	Title	Date

# CAPSA Pension Governance Implementation Tool

<b>I. PENSION PLAN OBJECTIVES</b>				
<b>PRINCIPLE 1: THE PENSION PLAN SHOULD HAVE CLEARLY STATED OBJECTIVES WHICH ARE DOCUMENTED AND MADE AVAILABLE TO PLAN MEMBERS AND BENEFICIARIES.</b>				
<b>1.1</b>	<b>PENSION PLAN OBJECTIVES</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	Pension plan objectives are clearly documented and made available to all stakeholders.			

<b>II. GOVERNANCE STRUCTURE</b>				
<b>PRINCIPLE 2: THERE SHOULD BE CLEAR DELINEATION AND DOCUMENTATION OF ROLES, RESPONSIBILITIES AND ACCOUNTABILITIES OF ALL PARTICIPANTS IN THE GOVERNANCE STRUCTURE.</b>				
<b>2.1</b>	<b>ROLES / RESPONSIBILITIES / ACCOUNTABILITIES</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	There are clearly defined and documented roles, responsibilities and accountabilities for all participants in the governance, management and operation of the pension plan. These roles, responsibilities and accountabilities are clearly communicated to all participants.			
<b>2.1.1</b>	<b>“Smaller” Pension Plans</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	Where governance and management functions are performed by the same person(s), there is a clear recognition and understanding of the different roles and responsibilities.			

## CAPSA Pension Governance Implementation Tool

<b>PRINCIPLE 3: THE GOVERNING BODY MUST FULFIL ITS FIDUCIARY RESPONSIBILITIES TO PLAN MEMBERS AND BENEFICIARIES.</b>				
<b>3.1</b>	<b>FIDUCIARY RESPONSIBILITIES OF THE GOVERNING BODY</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	All fiduciaries have a clear understanding of their fiduciary duties and fulfil their fiduciary duties to the plan members and beneficiaries of the pension plan.			
<b>3.1.1</b>	<b>Member-directed Defined Contribution Plans</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	The governing body considers all issues concerning the selection of investment options offered to members. Plan members are provided with tools that help them make informed investment decisions.			
<b>3.1.2</b>	<b>Employer(s) or Bargaining Agent(s) Acting as the Governing Body</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	The employer(s) or bargaining agent(s) acts in the best interests of plan members and beneficiaries.			
<b>PRINCIPLE 4: THE GOVERNING BODY SHOULD HAVE THE RIGHT MIX OF SKILLS AND EXPERIENCE AND THE MEMBERS OF THE GOVERNING BODY SHOULD COLLECTIVELY DEMONSTRATE THE SKILLS, CAPABILITY AND DEDICATION REQUIRED TO FULFIL THEIR GOVERNING RESPONSIBILITIES.</b>				
<b>4.1</b>	<b>GOVERNING BODY COMPETENCY AND COMPOSITION</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	The governing body effectively oversees the pension plan and makes informed decisions. The selection process ensures that the governing body collectively demonstrates the skills, capability and dedication to fulfil its governing responsibilities.			
<b>4.2</b>	<b>SUB-COMMITTEE COMPOSITION</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	The roles and functions of sub-committees are clearly set out. Sub-committee members collectively demonstrate the skills, capability and dedication necessary to fulfil their responsibilities. Sub-committees have the right mix of skills and experience.			



## CAPSA Pension Governance Implementation Tool

<b>PRINCIPLE 5: MEMBERS OF THE GOVERNING BODY SHOULD BE PROVIDED WITH APPROPRIATE TRAINING AND UNDERTAKE ONGOING EDUCATION.</b>				
<b>5.1</b>	<b>ORIENTATION / ONGOING EDUCATION</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	Members of the governing body are provided with appropriate training and ongoing education. Members of the governing body have, or are acquiring, the knowledge and skills required to make informed decisions.			
<b>PRINCIPLE 6: THERE SHOULD BE A PROCEDURE FOR THE SELECTION AND SUCCESSION PLANNING OF MEMBERS OF THE GOVERNING BODY AND SENIOR MANAGEMENT.</b>				
<b>6.1</b>	<b>SELECTION AND SUCCESSION PLANNING: GOVERNING BODY AND SENIOR MANAGEMENT</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	There is a formal and transparent procedure for the selection of the governing body members and senior management of the pension plan, which deals with the term, selection, appointment/election, and removal of members and managers.			

## CAPSA Pension Governance Implementation Tool

<b>III. COMMUNICATION</b>				
<b>PRINCIPLE 7: THE GOVERNING BODY SHOULD RECEIVE APPROPRIATE, TIMELY AND ACCURATE INFORMATION.</b>				
<b>7.1</b>	<b>DISTRIBUTION OF INFORMATION TO THE GOVERNING BODY</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	Processes have been established to ensure that governing body members receive appropriate, timely, accurate, complete, consistent and easily comprehensible information. These processes ensure that governing body members receive information related to all aspects of the pension plan (e.g. investments, funding, benefits and operating activities).			
<b>PRINCIPLE 8: A COMMUNICATION POLICY SHOULD BE ESTABLISHED FOR PLAN MEMBERS AND BENEFICIARIES TO ENSURE TRANSPARENCY AND ACCOUNTABILITY .</b>				
<b>8.1</b>	<b>COMMUNICATION POLICY: PLAN MEMBERS AND BENEFICIARIES</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	A communication policy has been established for disclosure of plan information to members and beneficiaries which ensures appropriate communication (i.e. timely, accurate, complete, consistent, cost-effective, useful, comprehensible and accessible).			
<b>8.1.1</b>	<b>Plan Member and Beneficiary Concerns</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	Pension plan members and beneficiaries have a right to voice concerns and have them appropriately addressed in a timely fashion.			
<b>8.1.2</b>	<b>Defined Contribution Plans and Hybrid Plans</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	Plan members understand the inherent risks of plans with DC attributes and know that investment risk is borne by plan members.			

## CAPSA Pension Governance Implementation Tool

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8.1.3	Member-directed Defined Contribution Plans	Yes/No/Partial	Explanation	Action Plan
	A communication and education plan is in place which ensures that plan members understand the inherent risks of member-directed defined contribution plans, the effect of risk versus return, basic investment strategies, investment choices, and pension plan and investment information. Plan members are provided with adequate initial and ongoing information so they can make informed decisions about their investment options. The governing body has considered all relevant issues when developing the education and communication plan.			

## CAPSA Pension Governance Implementation Tool

<b>IV. INTERNAL CONTROLS</b>				
<b>PRINCIPLE 9: A CODE OF CONDUCT AND CONTROL MECHANISM FOR CONFLICTS SHOULD BE ESTABLISHED.</b>				
<b>9.1</b>	<b>CODE OF CONDUCT AND CONTROL MECHANISM FOR CONFLICTS</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	A code of conduct has been established which sets out the required behaviour of the governing body, senior management and plan advisors in their role as fiduciaries. The code of conduct also establishes a control mechanism for conflicts, a conflict of interest policy and a review mechanism.			
<b>PRINCIPLE 10: PENSION PLANS SHOULD HAVE AN APPROPRIATE INTERNAL CONTROL FRAMEWORK.</b>				
<b>10.1</b>	<b>INTERNAL CONTROL FRAMEWORK</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	The pension plan has an internal control framework that ensures all potential risks for the plan are addressed. There are clear written policies and control processes regarding financial stability and plan funding, asset management, asset protection and expenses, the outsourcing of functions and the selection of service providers/professional advisers.			
<b>10.1.1</b>	<b>Asset-related Fees</b>	<b>Yes/No/ Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	If asset-related fees are charged to the plan or paid by members, steps have been taken to ensure they are reasonable and competitive.			

## CAPSA Pension Governance Implementation Tool

10.1.2	<b>Multi-employer Pension Plans</b>	<b>Yes/No/ Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	There is a delinquency control program with procedures for the collection of unremitted contributions and data, and remedies for non-compliance.			
<b>PRINCIPLE 11: THE GOVERNING BODY SHOULD HAVE APPROPRIATE MECHANISMS IN PLACE TO OVERSEE THE ADMINISTRATION OF THE PENSION PLAN AND ENSURE COMPLIANCE WITH LEGISLATIVE REQUIREMENTS</b>				
11.1	<b>OVERSIGHT OF PLAN ADMINISTRATION AND COMPLIANCE WITH LEGISLATIVE REQUIREMENTS</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	There are processes and standards in place to ensure the pension plan complies with legislative requirements and pension benefits are paid to plan members and beneficiaries in accordance with the terms of the plan and legislative requirements.			
11.1.1	<b>Pension Benefit Administration</b>	<b>Yes/No/ Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	Processes and standards have been established to ensure administration of pension benefits in accordance with the terms of the pension plan and legislative requirements.			
11.1.2	<b>Compliance with Legislative Requirements</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	An internal control framework is in place to ensure compliance with minimum legislative requirements.			

## CAPSA Pension Governance Implementation Tool

<b>V. PERFORMANCE MEASURES AND ASSESSMENT</b>				
<b>PRINCIPLE 12: OBJECTIVE PERFORMANCE MEASURES FOR DECISION MAKERS AND PENSION PLAN PERFORMANCE SHOULD BE ESTABLISHED.</b>				
<b>12.1</b>	<b>PERFORMANCE MEASURES – DECISION MAKERS</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	Objective performance measures have been established for all key decision makers (including the governing body, pension committee members, senior management, staff, custodians, investment managers, third-party benefit administrators and professional advisors) and a process for regular evaluation against the performance standards has been established. Mechanisms and follow-up actions have been established to rectify inadequate performance.			
<b>12.2</b>	<b>PERFORMANCE MEASURES – PENSION PLAN PERFORMANCE</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	Objective comprehensible performance measures are utilized to measure pension plan performance and performance measures are reviewed over appropriate time periods. Results are reported to appropriate stakeholders.			
<b>PRINCIPLE 13: A GOVERNANCE SELF-ASSESSMENT SHOULD BE CONDUCTED AND REPORTED TO PENSION PLAN MEMBERS, BENEFICIARIES, EMPLOYER(S) AND BARGAINING AGENT(S).</b>				
<b>13.1</b>	<b>GOVERNANCE SELF-ASSESSMENT AND REPORTING</b>	<b>Yes/No/Partial</b>	<b>Explanation</b>	<b>Action Plan</b>
	The governing body periodically reviews the governance procedures. Self-assessment reporting to plan members, beneficiaries, employers and bargaining agents is done on a periodic basis and sets out how the pension governance guideline was complied with, exceeded or not complied with.			

## APPENDIX B: CAPSA PENSION PLAN GOVERNANCE COMMITTEE MEMBERS

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