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Our File: P5100-A001-1

August 13, 2003

Mr. Calin Rovinescu
Chief Restructuring Officer
Air Canada
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Dear Mr. Rovinescu:

Subject: Air Canada Pension Plans (the Plans)
Pension Benefits Standards Act, 1985 (PBSA)
Pension Benefits Standards Regulations, 1985 (Regulations)

With the public release of the Eighth Report of the Monitor (“Report”), the Office of the Superintendent of Financial Institutions (“OSFI”) believes it is important to address certain of the points outlined in the Report and to clarify OSFI’s position once again.

On the morning of July 22, 2003, representatives of OSFI met with representatives of Air Canada (“AC”). A representative from the Department of Finance attended the afternoon meeting with AC and its unions but this individual was not present during the morning discussions with AC.

The morning meeting was held at the request of AC so it could present to OSFI its concept for the future funding of its pension plans. At the meeting, OSFI advised it would not be in a position to comment on this funding concept until more detailed information was provided, including the impact of the proposed approach on the funding ratios of each of the plans under different scenarios. It was agreed that further work would be undertaken by AC to develop a formal proposal.

OSFI is very concerned that the message in the Report, and potentially in other information provided by AC to third parties, may suggest that the concept as presented at the July 22nd meeting was detailed and received general acceptance when, as you know, we are still at the very early stages of discussion. In the afternoon meeting with AC and the unions, I made it very clear that OSFI had not agreed with any funding strategy put forth by AC as we had not received, and have yet to receive, a formal proposal from AC. The absence of details to date on AC's proposed funding strategy renders it very difficult if not impossible for us or others to assess the impact on plan members and retirees, the adequacy of proposed funding, or to identify potential elements of the proposal that may be unacceptable. OSFI is also concerned that the information being provided through the Monitor's reports and by other means may be raising expectations among stakeholders that this will be an acceptable solution. Obviously, such an approach makes it difficult to have any meaningful discussions on other potentially acceptable solutions.

Of further concern: OSFI notes that Paragraph 17 of the Report outlines two funding scenarios. As indicated in our letter of July 9th, it is important that any discussion of funding provide a balanced perspective, by not only addressing the perceived benefits of any one particular approach, but should also include a detailed discussion of possible risks to the members' benefits related to any proposals. We have also noted consistently that the views of representatives of employees and retirees, based on balanced and adequate information provided to them about the benefits and risks of a proposed funding strategy, will be a key to the acceptability of the strategy to OSFI.

Also troubling is that while the five-year funding scenario in the Report mentions the amount required to be paid in respect of the 2002 contributions pursuant to the direction issued by OSFI, the first scenario does not take this amount into account. Once again, OSFI would like to emphasize its position that the amount payable and owing pursuant to this direction must be recognized. OSFI, as always, is willing to discuss any detailed funding proposal with respect to this issue.

As you know, OSFI will be meeting again with representatives of AC on August 15, 2003. AC has informed OSFI that it will present a definitive proposal at that meeting. Such a proposal should be as detailed as possible and provided to OSFI in advance so that we can identify potential issues for discussion. In a number of letters and most recently in our letters of July 9th and 31st, 2003, to Sue Welscheid (attached), we outlined the level of detail and issues that we would expect to see. A considerable number of these were not covered in the material previously presented by AC, are key to an assessment of the benefits and risks of any proposal, and are thus essential to the acceptability of any proposal to OSFI.

In summary, as we have indicated on numerous occasions, OSFI is willing to work with Air Canada and all stakeholders to find an acceptable solution. However, in future, we ask that greater care be taken in the disclosure of information so as not to raise unrealistically expectations about the status of our discussions.

Yours truly,

John Doran
Assistant Superintendent

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