

OSFI reaches agreement-in-principle with Air Canada over pension issues

OTTAWA – May 14, 2004 – The Office of the Superintendent of Financial Institutions (OSFI) today announced that it has reached an agreement-in-principle with Air Canada in connection with funding of the company's employee pension plans. OSFI's agreement is based on the company having adequately addressed the outstanding pension issues.

On the basis of this agreement, OSFI is recommending to the Minister of Finance that the federal government amend pension rules to accommodate Air Canada's request to amortize existing deficiencies in its employee pension plans over a period of ten years instead of the five years required by federal pension regulations.

"Our primary goal throughout this process has been to protect the rights and interests of all plan beneficiaries," says Nicholas Le Pan, OSFI Superintendent. "While not without risk, we believe this agreement represents the best balance between protection for plan beneficiaries and Air Canada's need to emerge from CCAA protection. Accordingly, I am communicating my recommendation to the Minister."

The agreement includes a number of safeguards aimed at reducing the potential risks associated with a longer deficit repayment schedule. The agreement reflects the principles set out by OSFI, including sufficient levels of special payments in the early years.

Should the restructuring not succeed, earlier actions taken by OSFI prior to the airline entering CCAA protection established a strong claim for the pension plans on outstanding payments. "The agreement continues to provide adequate protection for pensioners in that regard," says Mr. Le Pan.

A process has also been established whereby beneficiaries will receive information on the terms of the agreement and be able to express their views through their unions or court-appointed representatives or to OSFI. The unions or court-appointed representatives must agree on the proposal on behalf of those they represent.

In announcing the agreement, Mr. Le Pan also suggests that the government consider extending similar arrangements to other companies that enter a CCAA process.

"I believe that with the appropriate constraints and conditions in place, providing flexibility in funding deficits during a CCAA restructuring puts plan members on a level playing field with other creditors rather than simply forcing them to accept reduced pension benefits," adds Mr. Le Pan.

As the primary regulator of federal financial institutions and federally administered pension plans, OSFI's mission is to protect the rights and interests of depositors, policyholders, pension plan members and creditors of financial institutions, and to advance and administer a regulatory framework that contributes to public confidence in the financial services system.

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