

**BY TELECOPIER**

November 19, 2003

Mr. Richard M. Grudzinski  
KPMG Inc.  
Suite 3300, Commerce Court West  
P.O. Box 31, Stn. Commerce Court  
Toronto, Ontario  
M5L 1B2

Dear Mr. Grudzinski:

Further to your letter of November 10<sup>th</sup>, as you know the Office of the Superintendent of Financial Institutions ("OSFI") as regulator of the Air Canada pension plans has a strong interest in ensuring that the interests of plan beneficiaries as they exist under the law are protected. That is particularly the case because various parties are requesting changes to the applicable funding regulations and there are a number of outstanding directions issued by OSFI in respect of the various Air Canada pension plans. Since this is a matter of concern to those on the Service List, OSFI is taking this opportunity to restate its position on some of the issues expressed in your letter.

OSFI's mandate in carrying out its objects is to strive to protect the interests of members, former members and other beneficiaries of pension plans. In addition, amounts owed or accrued to a pension plan attract deemed trust treatment by virtue of the *Pension Benefits Standards Act, 1985* ("PBSA, 1985"). At the moment the amount of the deemed trust that arises directly or indirectly from OSFI's directions is in excess of \$500 million. Our position on this matter is stated in our October 31<sup>st</sup> letter. Although Air Canada has stated that a solution must be found as early as possible, OSFI has not yet received a response from Air Canada to its October 31<sup>st</sup> letter or a request to discuss the points raised in that letter.

OSFI has always asserted that a deemed trust under the PBSA, 1985 is not subject to compromise under the *Companies' Creditors Arrangement Act* ("CCAA"). OSFI, being cognizant of Air Canada's position that some flexibility in the payment of these obligations is needed, has indicated that it be prepared to review a proposal concerning these obligations in connection with any proposal made by Air Canada for funding relief.

Yours truly,

John Doran  
Assistant Superintendent  
Supervision Sector

cc: Service List