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How to Deal with the Conflict of Interest Requirement

Many Administrators are concerned with the requirement to state existing or potential conflicts of interest and outline a mechanism for dealing with them particularly when some pension funds are completely invested in pooled funds. The reality is that anyone who administers and is responsible for investing large reserves of money, or those with agents acting on their behalf, can have conflicts of interest.

It is also true that some people are not even aware of their conflicts. It is necessary for Administrators to scrutinize the nature of their personal and professional associations with people influencing investment decisions. The requirements in the legislation to address conflicts of interest and to outline a plan for dealing with them are appropriate and serve to remind all parties of the trust and fiduciary duties that reside with Administrators and their agents.

The following approach is applicable equally to Administrators with pension funds completely invested in pooled funds and Administrators with autonomous investment funds:

- o The policy regarding conflict of interest should list all persons who are likely to be involved in the decision-making process: the Administrator, any agents such as investment managers, custodians, actuaries, consultants and employees of the Administrator.
- o The conflict of interest policy should identify the possible conflicts of interest that might arise from knowledge of, or involvement in the management of the plan and fund. For instance, an individual might declare personal relationships or business associations that are non-arm's length where privileged knowledge of certain investment actions could personally enrich the individual and the associate.
- o The disclosure mechanism will outline when a conflict of interest will be disclosed, to whom and in what fashion; the disclosure mechanism will also deal with the conduct of the individual until the conflict is resolved. For instance, the individual will abstain from discussion and voting on decisions, or remove oneself from the decision-making process, or from otherwise influencing investment decisions.

Depending on the specific arrangements an Administrator has undertaken for the management of the pension fund's investments, a conflict of interest policy that addresses the points mentioned above and makes frank disclosure will be sufficient to comply with the PBA, 1987 and Regulation*.

**the PBA, 1990 and Regulation 909.*