

CAPSA

April 25, 2003

Dear Pension Industry Stakeholder:

On behalf of the Canadian Association of Pension Supervisory Authorities (CAPSA), we are pleased to announce the release of a consultation paper entitled "Investment Rules For Pension Plans, Issues Related to the Application of the 10 per cent Concentration Rule" for review and comment by pension stakeholders.

Eight of the 10 jurisdictions in Canada that regulate pension plans and are members of CAPSA have adopted the federal investment rules, which are found in Schedule III of the *Pension Benefits Standards Regulations, 1985* (PBSR). A key goal of CAPSA is to maintain harmonization in the regulation of pension plan investments.

This paper is a response by CAPSA to issues raised by numerous stakeholders in the pension investment community with respect to the application of the "10 per cent concentration rule" (the 10 per cent rule). In recent years, concerns from stakeholders have been prevalent, especially throughout the growth period of Nortel and BCE stock (each representing more than 10 per cent of the market capitalization of the TSE 300 in 1999 and 2000) and around the time changes were made to Québec's pension legislation (amended to remove the concentration limit except for investments made by related parties). This paper is also a response to similar concerns that were raised in the course of the review by the Joint Forum of Financial Market Regulators of capital accumulation plans.

Some stakeholders in the pension community have raised the broader issue of the validity of the 10 per cent rule and the other quantitative limits. They propose that all the quantitative limits, including the 10 per cent rule, be eliminated, leaving plans subject only to the prudent person requirement. CAPSA has decided to address issues related to the application of the 10 per cent rule now and to defer consideration of the merits of replacing the quantitative limits with a different approach.

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This paper addresses five issues related to the 10 per cent rule with a proposed direction and a rationale, which are intended to provide a basis for consultations with stakeholders. CAPSA will consider input from stakeholders in developing proposals to the Office of the Superintendent of Financial Institutions (OSFI) for addressing these issues in the federal investment rules.

CAPSA welcomes the comments, suggestions and ideas of pension stakeholders regarding the issues addressed in this paper. The paper can be found on CAPSA's website at www.capsa-acor.org. Written submissions or questions should be forwarded to:

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CAPSA's proposed direction should not be construed as the official position of any provincial or federal government or agency.

We look forward to receiving your submissions by June 30, 2003. Electronic copies of submissions would be preferred. As it is the intention of CAPSA to publicly release the submissions received in this consultation process, please indicate if you do not wish your submission to be made public.

Sincerely,

Nancy MacNeill-Smith
Chair, CAPSA

Karen Badgerow-Croteau
Chair, CAPSA Investment Policy Committee