



Pension Investment  
Association of Canada

Association canadienne des  
gestionnaires de caisses de retraite

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## **Re: Quinquennial review of Part 3000**

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on the Canadian Institute of Actuaries (CIA) Actuarial Standards Board (ASB) consultation documents from the Designated Groups (DGs) in their respective mandate focus areas of Benefits Security, Meaningful Stress Testing and the Quinquennial review of Part 3000 – Pension Plans. We are pleased to have this opportunity to share our thoughts with you.

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over \$2 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

### Benefits Security

- PIAC believes that the meaning of benefit security and any mandated disclosures of benefit security are a public policy issue for law makers and regulators. While the views of the ASB on this issue are extremely valuable, the ASB should not be put in a position where it both mandates what needs to be disclosed and how the mandated disclosure metric need to be calculated. This is consistent with the

DG's position on the responsibility to various stakeholders in the consultation document.

- PIAC's position is that "going concern plus" funding is an appropriate and adequate measure to ensure the long term funding of defined benefit pension plans and protects the interests of beneficiaries of DB pension plans in Canada.
- PIAC agrees with the DG that the standards should allow the terms of engagement to specify whether plausible adverse scenarios be presented on a going concern or hypothetical wind-up basis or both.
- PIAC agrees with the DG that pension actuaries should not be required to assess nor disclose the financial strength of plan sponsors.
- PIAC agrees with the DG that the trend to reducing solvency funding requirements across Canada does not increase the responsibility of actuaries to stakeholders regarding pension plan funding. PIAC believes that the responsibility for funding is the plan sponsor's in accordance with minimum funding regulations.

#### Meaningful Stress Testing

- PIAC's position is that stress testing standards should be principles-based and should be conducted based on a risk review by the actuary and plan sponsor(s)/administrator.
- PIAC agrees with the DG that actuaries would benefit from enhanced education to understand leverage, its inherent risks, and its impact on the expected return on assets and in turn on the discount rate. In addition, actuaries would benefit from a better understanding of the valuation methods for many of the privately traded alternative asset classes and their impact on the smoothing of the value of these assets. PIAC's members have an excellent knowledge base in these areas and would be pleased to assist the DG and the CIA in developing educational material.

#### Pension Plans

- With regard to alternative hypothetical wind-up valuations, PIAC wishes to raise the concern that disclosure of a worst-case scenario on wind-up (such as a bankruptcy scenario) will likely lead to disclosure and communication challenges for plan sponsors with their employees and plan members. Moreover, there is the potential for unintended consequences whereby the disclosure of the scenario motivates regulators to use it as a minimum actuarial standard to calculate transfer value ratios, which would ultimately lead to higher costs for plan sponsors.

We appreciate this opportunity to share our observations.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S. Fréchet', with a long horizontal stroke extending to the left.

Simon Fréchet  
Chair