



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

July 20, 2023

Angela Mazerolle
CAPSA Chair
CAPSA CAP Guidelines Committee Chair
CAPSA Secretariat
25 Sheppard Avenue West
Box 21, Suite 100
Toronto, Ontario, M2N 6S6

Via e-mail to capsa-acor@fsrao.ca

Dear Ms Mazerolle,

Re: CAPSA Guideline No. 3 – Guidelines for Capital Accumulation Plans

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on the consultation on CAPSA's Draft Guideline No. 3 - Guidelines for Capital Accumulation Plans dated May 9, 2023 ("2023 Draft").

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over \$2.8 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.

PIAC provided extensive feedback to the previous 2022 Draft CAP Guideline No. 3 released in 2022 for consultation. Our members are experienced, senior professionals who work in the Canadian pension sector, and they extended significant time, effort, thought, and expertise to provide a comprehensive response to CAPSA's consultations.

We are pleased to see that some of our feedback from that previous consultation process appears to have been reflected in the 2023 Draft. We note, however, that several of our recommendations appear not to have been considered and have not been incorporated. We are left with little alternative but to reiterate the importance of incorporating all recommendations previously supplied. A copy of our submission from August 2022 is attached for your reference.

It is clear that CAPSA decided to retain many of the changes it proposed that were not the result of the significant collaborative effort of the industry working group (IWG)¹. It is our view that the process followed to get to the 2023 Draft is flawed, as is the output derived from it.

Nonetheless, we are committed to providing feedback on this document as we believe it needs significant improvement. PIAC and CAPSA share similar goals in creating a vibrant, innovative sector supporting the financial security in retirement of Canadians across every province.

Initial Review

We are supportive of CAPSA's goal of modernizing and updating the 2004 Guidelines by the addition of decumulation and automatic and default features, as well as references to advice and tools.

Given the prescriptive requirements of the 2023 Draft and that the CAP Guidelines have been interpreted as a minimum standard rather than a best practice, PIAC is concerned that the 2023 Draft, if implemented, will create an environment that discourages employers from offering CAPs, which are an important tool to help Canadians achieve lifetime income security in retirement.

Below we highlight some key concerns:

- We are concerned about the change in balance between CAP employer and member responsibilities that have been introduced. CAP members need to clearly understand their responsibilities in their plan, including their risks.
- We are concerned about the members' ability to read increasingly prescriptive and complex statements – which will also drive up plan administration costs borne by the CAP members and CAP sponsors alike.
- We are concerned about the narrow focus on fees as the measure of “tangible benefits”. CAPs are offered by sponsors in the first place to provide the benefits of low-cost investing, and financial education and security, to its members/employees. The emphasis on fees in the 2023 Draft may in fact serve to reduce some of these plan benefits despite CAPSA's clear and highly supported shared goal of improving member outcomes via lower fees.
- We are very concerned about the language used, a few examples of which were noted in our August 2022 submission.

Additionally, and critically important to PIAC is our focus on advocating for principles-based regulation. PIAC has consistently supported regulatory frameworks and guidelines that are principles-based so they may be flexible enough to be implemented in an ever-evolving sector. The most recent versions of the CAP Guidelines have

¹ PIAC participated in the OSFI and FSRA DC Technical Advisory Committee and believe that the input provided during that consultation was misinterpreted and inappropriately incorporated into CAPSA's review of the IWG version of the CAP Guidelines

moved well beyond principles and are highly prescriptive. PIAC is not supportive of CAPSA's shift to a prescriptive approach.²

Prudent Review Process

PIAC and CAPSA share the same goal of providing individual Canadians with improved retirement and investment outcomes. PIAC strongly suggests that CAPSA reconvene the IWG and walk through the voluminous feedback on the Draft Guidelines in a formal and systematic way and engage with the IWG in good faith. PIAC believes the IWG CAPSA process should be honoured in support of all CAP members and respect to those stakeholders supporting these Canadians. PIAC believes a fulsome process taken all the way across the finish line will produce a document that could benefit the sector for decades to come.

This is necessary to create a document that is balanced and truly reflective of sector best practices in the interest of CAP members. PIAC would prefer to review all stakeholder's comments, extensively debate the issues, and receive feedback in a professional manner within the IWG forum, interacting with regulators and jointly building principles-based guidelines.

The future of CAPs in Canada depends on CAPSA choosing the opportunity to complete the review of these CAP Guidelines in a transparent and fulsome manner via open discussion and debate with industry organizations. Prudence is a process. PIAC is committed to taking the time to complete this process. For the sake of future generations, we sincerely hope CAPSA will not rush to finalize the document.

If CAPSA chooses to continue its less-optimal approach and decide not to reconvene with the IWG, PIAC recommends CAPSA extend its consultation period on this draft until at least September 30, 2023, to allow time for our association's members, and all stakeholders, to provide a thoughtful response for CAPSA's consideration (assuming CAPSA stands behind its stated commitment to openly consider input). We kindly request a black-lined document that compares the 2023 Draft to the 2022 Draft (and/or to the 2004 CAP Guideline No. 3), in any case, but particularly if the ineffective latter approach is taken. This would allow our members to efficiently identify and comment on the full extent of changes that CAPSA has introduced in the 2023 Draft. However, as stated above our preference would be to provide these comments through our IWG representative.

Thank you for the consideration of our comments. We look forward to continuing to work with you directly and via the IWG to strengthen and modernize CAPSA's CAP Guidelines No. 3 to create an effective regulatory environment that helps support and grow the number of Canadians achieving financial security in retirement.

² Similar cautionary and concerning comment applies to other recent consultation documents released by CAPSA.

Yours truly,

A handwritten signature in cursive script, appearing to read "Peter Waite".

Peter Waite
Executive Director

Enc. August 31, 2022 PIAC submission