



March 13, 2009

Ms. Diane Lafleur
Financial Sector Policy Branch
Department of Finance
L'Esplanade Laurier
20th Floor, East Tower
140 O'Connor Street
Ottawa, Canada K1A 0G5

Private & Confidential

Dear Ms. Lafleur:

Thank you for giving us the opportunity to provide our comments on the consultation paper "**Strengthening the Legislative and Regulatory Framework for Private Pension Plans Subject to the Pension Benefits Standards Act, 1985**" released by the Department of Finance in January 2009 (the "Paper").

This Paper raises important issues for debate. We believe that the current legislative framework for federally registered pension plans should be reviewed and modified to better reflect the evolution of the environment in which pension plans operate.

We consent to this letter being posted on the Department of Finance's web site and to a copy being sent to the Office of the Superintendent of Financial Institutions.

Background on CBC

The Canadian Broadcasting Corporation (CBC) is a Federal Crown Corporation, which is an Agent of the Crown. Therefore, assets and obligations of the CBC are assets and obligations of the Federal Government.

CBC's operating revenues are approximately \$1.4B, including government funding of \$1.0B, with a payroll of about \$800M. CBC operates in a highly unionized environment.

CBC is Canada's national public broadcaster and its largest cultural institution. CBC is accountable to all Canadians, reporting annually to Parliament through the Minister of Canadian Heritage.

CBC enjoys the same credit rating as the Federal Government that is AAA by rating agencies. The risk that CBC becomes insolvent is basically non-existent.

Background on the CBC Pension Plan

The CBC Pension Plan was established on September 1, 1961. It replaced a group annuity plan which was effective April 1, 1943.

Its provisions are very similar to the Federal PSSA, with some differences with respect to early retirement conditions and pension indexation. However, contrary to the PSSA, the CBC Pension Plan is subject to solvency funding since it is registered under the Pension Benefits Standards Act.

The following outlines key information on the CBC Pension Plan:

- Market value of assets was \$3,895M as at September 30, 2008.
- Approximately two thirds of the plan's liability is with respect to pensioners – the plan is very mature.
- All benefits are indexed to CPI, subject to a maximum annual indexation of 2.7%.
- The plan's estimated financial position as at September 30, 2008 was as follows:

	(in \$ Million)	
	On a going-concern basis	On a solvency basis
Value of assets	\$3,895	\$3,891
Actuarial liabilities	\$3,770	\$4,110
Excess/(deficit)	\$125	(\$219)
Funding ratio	103%	95%

The plan's solvency position is linked to real return bonds (RRBs) because of the guaranteed indexation feature. The solvency deficit as at September 30, 2008 is mainly due to the recent market downturn. However, the CBC Pension Plan was much less affected than typical pension plans due to its liability driven investment strategy.

Regarding the rules for funding solvency deficiencies and the solvency calculation itself

CBC manages its pension plan in a prudent manner. Due to its context, CBC has a long-term view of its pension plan and plan wind-up is not an issue. Accordingly, the pension plan funding target is based on a relatively conservative going-concern basis with appropriate provisions for adverse deviations.

CBC's view of solvency funding requirements is as follows:

- It does not really provide more benefit security. In fact, the best security to plan members is a financially secure sponsor.
- It reduces the CBC's ability to use capital to achieve its corporate mandate. The CBC cannot borrow for working capital needs and most of its operating revenues come from government funding. If the CBC has to use its capital to fund solvency deficits, it will have to reduce its operating expenses, and potentially reduce services to Canadians.
- It generates financial uncertainty due to contribution volatility.
- The federal rules affect the CBC's competitiveness with Ontario organizations since funding requirement is much lower and flexible in Ontario. If the Ontario solvency rules were applied to the CBC Pension Plan, it would have a significant solvency surplus as at September 30, 2008 instead of a deficit.

Based on the above, and given that CBC's assets and obligations are those of the federal government, it is our view that **the CBC Pension Plan should not be subject to solvency funding requirements.**

Alternatives for solvency funding

Without any prejudice to our preferred position stated above, and in the event that the Department of Finance is unwilling to exempt the CBC Pension Plan from solvency funding, we believe the government should consider the following alternatives:

- More flexibility on the approach used to determine the solvency liability should be provided. Based on the conventional approach used on plan wind-up, almost all CBC Pension Plan liabilities, or about \$4B, would have to be settled through annuity purchase. This is considered a "theoretical" exercise since the size of the plan would require buying a significant proportion of the total RRBs issued by the Government of Canada, given that the plan's indexation is linked to CPI increases. Also, buying annuities may not be the preferred approach of CBC's shareholder, which is the Government of Canada, from a cost point of view. For that reason, an alternative approach achieving full immunization of liabilities has been developed to measure the solvency liabilities of the CBC Pension Plan. The investments would

still include RRBs, but would also use an overlay to include exposure to corporate bond market, which would make sense from a market and a cost perspective. Such an approach should be better documented and should be explicitly allowed in the pension legislation and related policies.

- An extension to the amortization periods for funding of solvency deficits, from 5 years to 10 years, for all organizations
- Relief on the funding of solvency deficits for organizations with high credit rating and/or backed by the government. The amortization period would also reflect the size of the solvency deficit. For a highly rated organization like CBC, this could work as follows:
 - No funding would be required for a deficit of less than 5% of assets. However, sponsors could not take contribution holidays if the solvency surplus is less than 5% of assets. The rationale for these rules could be that small variations around the breakeven point are normal temporary deviations
 - Funding of solvency deficits between 5% and 10% of assets would be amortized over 15 years.
 - Funding of solvency deficits greater than 10% of assets would be amortized over 10 years.
- Smoothing of solvency assets should be allowed without restrictions on the percentage it can exceed the market value of assets, as long as it meets actuarial standards, and without restrictions on the possibility to switch the asset method from one valuation to the other.
- Use of letters of credit to cover solvency deficit or solvency special payments. This would provide an interesting funding alternative.

Regarding full funding of pension benefits on plan termination

CBC agrees that members' benefits should be protected on plan termination, as it is the case in provincial jurisdictions. However, organizations with high credit rating and/or backed by the government that remain viable after the plan termination should be allowed to pay, directly from their operating income, the benefits that cannot be paid by the pension fund.

Regarding elimination of the concept of partial termination and requirement of immediate vesting

CBC views on partial terminations can be summarized as follows:

- The concept of partial termination is very artificial since decisions that could trigger a partial termination are normally not linked to the pension plan;
- What constitutes a partial termination is not always clear in the Federal legislation, in particular in the case of business reorganizations;

- In practice, some sponsors may apply the concept strictly and others not. This results in inequities between employees of different employers;
- Potential surplus distribution creates uncertainty and is a disincentive for employers to fund a safety reserve in their pension plans;
- Surplus at time of partial termination is very notional;
- Vesting rules (e.g. vesting after two years of membership) were necessary in the past to prevent cumbersome administration for seasonal employees or for sponsors having high turnover. It is not an issue anymore with the technology, tools and systems available; and
- The Quebec approach under which partial terminations were eliminated and immediate vesting was granted should be a model for other jurisdictions.

For these reasons, CBC would strongly recommend that:

- The concept of partial termination be eliminated, and
- Full immediate vesting be extended to all plan members.

Otherwise, as a minimum, pension legislation should clearly state that surplus does not have to be distributed on partial termination.

Regarding additional disclosure to plan members and the requirement of a Statement of Funding Policy

CBC's point of view is that relevant pension information should be communicated to plan members in a practical and timely manner. For the CBC Pension Plan, the CBC Pension Board of Trustees, the plan's annual report and the annual statements to plan members play an important role in that regard. Also, all the plan's active members and pensioners can access relevant plan information on the web.

CBC has no objection with additional disclosure requirements on the following:

- The examination of the Statement of Funding Policy,
- The dissemination of required disclosure by electronic means, and
- Disclosure of plan information to former members and retirees.

For practical reasons, sponsors should have the flexibility to communicate any additional disclosure requirement with the members' annual pension statements or electronically.

Furthermore, the Corporation would encourage any measure that would promote good governance, such as establishing formal funding policies. We would like to point out that this is essentially a documentation requirement since large sponsors already have funding policies in practice, even though these policies may not be formally written.

Regarding annual reporting to continue contribution holidays

CBC agrees with the concept that a contribution holiday should stop within a reasonable timeframe if a plan's financial position deteriorates to a deficit position.

However, the filing of an annual valuation report for that purpose seems too restrictive and costly for plan sponsors. An actuarial certification based on a projection of the previous actuarial valuation results should be sufficient to continue a contribution holiday, if it shows that the plan is still in surplus under both the going-concern and the solvency bases. For large pension plans, such as the CBC Pension Plan, actuarial certifications are prepared on an annual basis for the plan's annual report.

Furthermore, CBC agrees that the level of the pension "excess surplus" threshold defined under the Income Tax Act (generally 10% of going-concern liabilities) should be increased. CBC would recommend that the threshold be increased to 25% to provide more funding flexibility to plan sponsors.

Regarding void amendment rule

CBC agrees with the concept of banning plan amendments for plans having important deficits. This would increase the likelihood that members receive the promised benefits. However, the threshold should be low to avoid that the rule be too intrusive. A threshold of a solvency ratio of 85% seems reasonable.

Also, the criteria for the void amendment should be appropriate for organizations with high credit rating and/or backed by the government. For an organization like the CBC, the criteria should be based on the pension plan's going-concern funding position instead of the solvency position.

Furthermore, CBC does not agree that older benefits would have a higher priority than benefits recently established. Once incorporated in a plan, all benefits should be provided as promised, should be equally funded, and should be equally treated on plan termination. This is a matter of equity and contractual obligations.

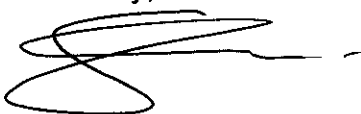
Regarding improvement to regulations on pension investment

Investment decisions are complex and should reflect the specific circumstances of each pension plan and sponsor. The current regulatory framework already imposes a fiduciary duty on investment decisions, which are made in accordance with a Statement of Investment Policies and Procedures. It may therefore not be appropriate to develop a number of strict rules on pension investments, which could reduce the flexibility needed in certain circumstances.

However, it would make sense for regulators to monitor to a greater degree and to order a change to the asset mix in certain circumstances, for example when an insolvent plan has clearly imprudent investment strategies.

We trust this submission is helpful in your consultation and would be pleased to present it in person at your earliest convenience. Also, we agree that our submission will be posted on the Department of Finance's website.

Sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a horizontal line extending to the right.

Johanne Charbonneau
Vice-President and Chief Financial Officer