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

By Email: pensions@fin.gc.ca

Re: **Strengthening the Legislative and Regulatory Framework for Private Pension Plans Subject to the *Pension Benefits Standards Act, 1985*** – the Consultation Paper issued by the Financial Sector Division of the Department of Finance, Government of Canada

Dear Ms. Lafleur:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Consultation Paper "Strengthening the Legislative and Regulatory Framework for Private Pension Plans Subject to the *Pension Benefits Standards Act, 1985"*(the "Act") issued by the Financial Sector Division of the Department of Finance, Government of Canada.

CGA-Canada, together with its 71,000 members and students, represents the future of the accounting profession. The CGA designation is built on a strong foundation of ethics, education, examination and experience. The CGA standards for competence meet and exceed international standards. CGA-Canada contributes to public policy discussions and enjoys a leadership role at the national and international level advocating for the public interest.

We support the Government of Canada's objective of setting out the minimum standards for "federally registered pension plans to ensure that the rights and interests of pension plan members, retirees, and their beneficiaries are protected." CGA-Canada is also cognizant of the fact that "improvements in the legislative and regulatory framework should be aimed at improving the security of pension plan benefits and ensure that the federal legislative and regulatory framework is balanced and appropriate in its incentives to establish and/or maintain pension plans."

As the Paper states that, "the government is seeking views on whether employers and employees are interested in alternative plan designs that may not currently be accommodated by the legislative framework", the liberty has been taken to introduce an alternate plan design in the form of a CGA-Canada Funding Model. That model is briefly outlined and then referred to in the responses to the questions set out in your request for comments. Additional comments are also provided for your consideration at the conclusion of this comment paper. In contemplating the design of the Model, the objective was to strike a balance between the costs incurred by plan sponsors to provide member benefits and the security of member benefits. In short, it would be intended that the Model be received as one that seeks to be equitable to all parties.

CGA-Canada Funding Model:

CGA-Canada has previously published two papers on pensions[1]:

1. ***Addressing the Pensions Dilemma in Canada,*** June 2004. This paper explored the then state of affairs and it also examined the contentious debate surrounding pension surplus ownership, and the distribution of that surplus.

2. ***The State of Defined Pension Plans in Canada: An Update*** *on addressing the pensions dilemma in Canada,* November 2005, built on CGA-Canada's publication on the pensions plan dilemma with the goal of further advancing public understanding. It served to outline the predicted risks and the proposed actions for transformation of existing pension plans, examined the nature of funding deficits and, most importantly, drew a comparison between 2003 and 2004 results.

In both papers, CGA-Canada rationally contended as one of its main propositions that "pension benefits should be considered as deferred compensation which is contractually and legitimately owed to workers, and as such should be managed and preserved for that purpose."

The Model can be applied to plans in which employees contribute to their defined benefit pension plans and the employer contributes its share, based in large part, on the actuarially computed values. One reasonable view is that plan design and administration should be changed to make it mandatory for plan sponsors to contribute matching amounts at the same frequency as those of employees or plan members.

Often overlooked is the fact that like most things, companies/divisions have finite life. As such, plan configuration and eventual plan windup should typically be anticipated in the plan's design as to do otherwise, the latter members of a plan can be disadvantaged. Normally, the members would not lose out when the plan is solvent or if the company is solvent and continues to pay the plan deficit. In those situations when an employer is unable to meet its obligations to fund the deficits, to provide additional protection to members however, the compulsory matching contribution concept is advanced. It is noted that while superior in affording additional protection, the Model, i.e., the compulsory matching contribution, in those rare circumstances, may conceivably terminate in a deficit position.

Thus both parties (employees and the employer) enter into a partnership agreement to contribute to the welfare of the plan beneficiaries. Under the Model all:

- surpluses can be shared equally by the members and the sponsor because the aggregate amount of surplus has resulted from member contributions as well, they are not a result of solely the employer's contributions; and

- deficits are deemed the responsibility of the employer because it is the employer which sets out to attract and retain talent in a competitive environment to advance its business, has made a pledge to members to provide pension benefits, and controls and manages the pension plan. Presently, there is little dispute regarding the employer's role to fund deficits.

  Should the employer relinquish sole control of management of the plan but agrees to a joint equal control of the plan (a clear partnership) with the members then, under this Model, the deficits may also be shared equally. The joint management of the plan can be accomplished through a continuum of governance methodologies including the existence of independent advisory pension committees

[1] These papers are available for free download from the CGA-Canada's website: www.cga.org/canada.

and/or pension committees, accountable to the whole of stakeholders. The basic roles and responsibilities of such committees have been presented on page 65 in our June 2004 publication.

Within the current landscape, surplus distribution is simply not seen as fair and equitable to plan sponsors or to members. Under the Model, when determining the attribution of pension plan surpluses, the computation should employ time-weighted[2] rate of return on respective plan contributions by the members and the employer. Please note that under the Model, the employer contributions toward deficits would not be taken into account for surplus allocations.

For example, if the plan sponsor has never missed a matching contribution and if it is assumed that the plan is in surplus by 20%, then, logically, only 10% of the surplus belongs to one partner (sponsor) and the remaining 10% belongs to the other partner (members) because the total amount of surplus has resulted from the equal contributions by both employer and employees.

Under the Model, if an employer decides to make a withdrawal of an above-mentioned portion of the surplus, it would create two different scenarios that have different consequences. Since, the surplus calculations are based on time-weighted-contributions, relatively speaking, the one partner's contribution (employer) would be reduced and other partner's (members) contributions would be increased. The time-weighted-return methodology will allocate a higher percent of the next surplus calculation to the members and proportional smaller surplus to the employer and so on. In order to maintain the same ratio of surplus allocation, the employer might also wish to permit the members equal contribution reductions. In the response to your question #1, elaboration is provided on various aspects of the surplus withdrawal.

Also, one of the advantages of the Model is that under the Model, since a plan sponsor is required to make matching contributions, which renders it similar to a defined contribution plan, the Model provides the true cost of the defined contribution pension plan. When the cost of the defined benefit plan becomes known via the actuarial estimates, an estimate of the true cost of defined benefit pension plan is known. Thus, the true cost of the defined benefit plan that is over and above the defined contribution plan becomes equally known. The employers would welcome that information.

It is acknowledged that the implementation and application of above Model would require some legislative changes in both the Act and the *Income Tax Act*. The potential changes have not been discussed in this response.

Our response demonstrates how the Model would be applied while addressing your specific questions in the following pages:

Q1. *The Government of Canada is interested in stakeholders' views regarding the rules for funding solvency deficiencies and the solvency calculation itself.*

Comments:

The Paper raises three important issues that require deliberation: going concern and solvency funding deficiency calculations, use of Letters of Credit and other forms of guarantees, and the ownership of surplus.

[2] Should the Department of Finance wish to explore the Model or its concepts further, CGA-Canada staff can be mobilized to participate in further consultation.

Going concern and solvency funding deficiencies:

Going concern and solvency deficiency calculations help to determine whether a plan is in surplus or in deficit position under either scenario. The calculations raise four possible situations: (1) there is a deficit based on both going concern and solvency bases; (2) there is a deficit based on going concern but a surplus based on solvency basis; (3) there is a surplus based on going concern but a deficit based on solvency basis; and (4) there is a surplus based on both going concern and solvency bases.

Under the present practice, with respect to situation (1) the largest of the deficits calculated by both bases, under (2) the going concern deficit, under (3) solvency deficit and under (4) the smallest of the surpluses arising from calculations by both bases are addressed by the sponsor.

The deficits arising from the above first three situations require the sponsor to fund the deficits over a specified period of time. Therefore, at any time, there might be some outstanding deficit balances remaining. Should the plan experience situation (4), i.e., it is in surplus, the smallest of the surpluses computed on both bases is considered to be surplus. By virtue of a situation (4) outcome, all prior deficits are automatically extinguished. Also, with respect to situation (4), the Model has outlined how and when a surplus may be taken out while keeping in mind the consequences of doing so.

As previously stated, under the Model, the matching contribution has to be made irrespective of the going concern or solvency bases calculations because the other partner in the pension plan (employees) are required to contribute irrespective of the status due to going concern and solvency bases of calculations. These contributions have to be typically made by the employees even if the bases of calculations reveal a surplus, thus in the same circumstances, the argument might be made for the employer or sponsor to likewise participate and to make the matching contributions with little if any exception.

When eying a surplus, one should always be aware that going concern and solvency bases of calculations are performed at a point in time, but investment markets may turn within the next few days subsequent to the performance of the calculations on both bases, and in fact many times until the next scheduled plan assessment. To protect the member benefits from such volatility and eventuality therefore, the regulator might ensure that any surplus retirement or withdrawal be affected uniformly and spread over adequate time frame, never in one lump sum. A fair way would be that if the solvency deficiency is funded over a five-year period, a surplus, having met all criteria of the Model, be permitted to be likewise taken over the same time frame, five years in this case.

Letters of Credit and other forms of guarantees:

The Paper states that in the recent past the Letters of credit have been put forward as a means of satisfying solvency payments, and indeed, were used in the 2006 *Solvency Funding Relief Regulations,* and adopted for this purpose by other jurisdictions, including Quebec, Alberta and British Columbia.

The Paper also states, “The advantage of properly structured letters of credit is that they permit employers to provide increased security to plan members in the event of, for example, insolvency, while providing greater funding flexibility to plan sponsors. The key issue in permitting letters of credit, as an alternative or complement to solvency funding, is to ensure that a letter of credit would provide a level of security generally comparable to the payment of money into the pension fund. Letters of credit also respond to the ‘trapped capital’ issue that has been raised by sponsors: in situations of volatility – particularly in discount rate levels – funded positions can change dramatically in a short period of time. In such cases,

sponsors have expressed concern that payments to the fund immediately prior to a rapid improvement in funded position would lead to capital being ‘trapped’ in the pension fund. Letters of credit, on the other hand, can be released if the pension returns to a fully funded position.”

It should be noted that the Letters of Credit and other forms of guarantees provide only guarantee that a third party, e.g., a bank, is willing to fund the pension plan should the trigger be activated. Actually, no money is transferred into the fund, i.e., the money does not work for the benefit of plan security. Rather, it has the effect only of providing additional time to the sponsor to defer the payment at its discretion. Therefore, letters of Credit, and other forms of guarantees, do not provide funds but grant delay of payment to the plan in difficult times. The sponsor anticipates that the deficit can be offset, at least in some part, by relatively immediate future experience gains rather than actual funding. Also, it should be noted that during the recent turmoil in the investment market, some banks and alternate providers of the guarantees, have gone bankrupt in the U.S. or been adversely affected. In Canada, we have not experienced any bank bankruptcies, and expect that we won’t, but would remind ourselves that since one of the objectives is to provide security to members, the Letters of Credits and other forms of guarantees defeat the purpose to a significant extent of necessitating the requisite plan solvency. It does add to the security in some ways, but does not eradicate all risks to sponsors and members.

The arguments in favour of the use of the Letters of Credit and other forms of guarantees were advanced because of the uncertainty related to the present practices of surplus ownership/withdrawals. Since the Model specifically provides for situations when a surplus may be claimed or withdrawn, the argument in favour of releasing “trapped” capital can be rendered mute.

As proposed in the Model, the employer must make matching contributions on the same frequency as the employees otherwise they would lose the full benefit of the surplus as discussed earlier. It could be added here that if an employer, because of its financial condition, fails to make a matching contribution, this amount should have the highest level of right over the sponsor’s assets in case of a bankruptcy like the failure to pay wages to employees because the matching contribution under the Model is considered to be deferred compensation.

Ownership of surplus:

Section 3.A states, “The ongoing uncertainty as to the ownership of surplus in a plan has also been identified as an impediment to the appropriate funding of plans. Many plan sponsors and pension experts have argued in the absence of contractual clarity, the Act has the effect of requiring the plan sponsors to share any surplus while remaining fully responsible for pension plan deficits.” It also states, “There is also the uncertainty of surplus distribution during partial termination, where the surplus is notional until the full termination of the plan. As a result, plan sponsors claim that they are discouraged from contributing more than the required minimum.”

CGA-Canada has supported a view that “some members of plans registered under the Act have argued that pension benefits are deferred compensation, paid as a consequence of contract negotiations that would otherwise have been paid in another form. Plan members bear some risk of not obtaining fully promised benefits and may be exposed to increased contributions, reduced benefits, or wage concessions as a result of the sponsor being forced to fund its pension deficits. In this context, it can be argued that plan members ought to have some claim to the surplus.”

The Model has addressed the above issues briefly. As implemented, it provides certainty with respect to the ownership of surpluses and provides reduction in volatility so the employer can plan its cash flows

and ensure that plans are adequately funded on a regular basis. It also provides protection of pension benefits to members. Some may argue that the Model provides for a matching contribution which may be higher than that currently required in practice over a long period. This can be made tantamount to reasoning that a typical employer offers defined benefit pension plan because it is less costly than a defined contribution pension plan.

Q2. *The Government of Canada is seeking views on whether to require that plan sponsors fully fund pension benefits when a plan is fully terminated, but provide that payments can be made over a period of five years, and treat the outstanding obligation as an unsecured debt of the company. In addition, the Government is seeking views on conditions, if any, where a plan could be terminated in an underfunded position by virtue of an agreement between the sponsor and plan members.*

Comments:

This question raises four important issues: whether to require that plan sponsors fully fund pension benefits when a plan is fully terminated, whether payments can be made over a period of five years, whether outstanding obligation can be treated as an unsecured debt of the company, and whether a plan could be terminated in an underfunded position by virtue of an agreement between the sponsor and plan members.

Whether to require that plan sponsors fully fund pension benefits when a plan is fully terminated:

The Model stipulates that the matching contribution if unfunded must be funded immediately before termination of the plan. Should there be any deficits of compulsory matching contributions, this amount should have the highest level of right over the sponsor’s assets in case of a bankruptcy like the failure to pay wages to employees because the matching contribution under the Model is considered to represent deferred compensation.

Whether payments can be made over a period of five years:

Because of the vagaries of the market and the uncertainty associated with business climate, payments should be covered over the shortest possible period. Here, a regulator might wish to make a judgment call based on predefined criteria in particular situations.

Whether outstanding obligation is considered as an unsecured debt of the company:

The Model stipulates that the compulsory matching contribution has the highest level of right on the plan sponsor’s assets but other unfunded deficits may be considered to be unsecured debt of the company. Here again, the regulator might wish to make a judgment call based on particularity of the situation.

Whether a plan could be terminated in an underfunded position by virtue of an agreement between the sponsor and plan members:

This situation provides relief to one partner (the sponsor) and requires the other partner to bear potentially significant consequences. Based on the premise of plan, it may be more reasonable to hold the sponsor obligated to the outstanding unfunded liability and to make all reasonable efforts to extinguish this debt as it might do for other business debts. Again, the regulator might research the matter with a view to providing direction based on particular situations or, through the provision of an impartial arbitrator, bring parties together to arrive at some accommodation that is mutually fair and satisfactory to the respective parties.

Q3. *The Government of Canada is seeking views on whether to eliminate the concept of partial termination from the Act but require immediate vesting of pension benefits for all members.*

Comments:

The Paper states, "Under the current framework, employees who leave the plan prior to completion of a vesting period are entitled to a return of their contributions plus interest. If the employee's service is longer than the vesting period, he or she is entitled to receive the pension benefits accumulated when he or she ceases to be a member of the plan. Accordingly, providing for immediate vesting would remove the need for partial terminations in respect of this purpose."

Also, the Paper states, "The maximum period for vesting is currently two years. If a plan terminates, immediate vesting would protect the rights of plan members who have less than two years of service. Immediate vesting would apply to members of both defined benefit and defined contribution plans."

The concept of immediate vesting can be supported and is in concordance with Quebec's legislative framework that has already "eliminated the concept of partial terminations."

Q4. *The Government of Canada is seeking views on whether to:*

a) require administrators to establish a Statement of Funding Policy (SFP) in a similar fashion as the Statement of Investment Policies & Procedures (SIP&P). The SFP would be examinable upon request, like the SIP&P.

b) allow required disclosure items to be disseminated by electronic means, at the option of the receiving member or beneficiary.

c) expand the categories of members required to receive plan information to include former members and retirees, where it is appropriate.

Comments:

The analysis in the Paper related to above questions is fully supported. However, we wish to encourage the regulator to ensure that the sponsor highlights in communications to all stakeholders/parties if a matching contribution has been missed separately from the other unfunded liabilities related to missed contribution. Above disclosure requirement, i.e., missed matching contribution and other unfunded liabilities amounts should also be separately disclosed in the financial statements of the sponsor or in the notes to the financial statements. Additional disclosure, when applicable, should include any surpluses taken, and any plan terminations in unfunded positions, total unamortized unfunded deficits, total unamortized surplus that can be taken, etc.

Q5. *The Government of Canada is seeking views on whether:*

a) *plan sponsors be required to develop a formal policy on contribution holidays for inclusion in a Statement of Funding Policy; and*

b) *to the extent that employer contributions are permitted under the tax rules, plan sponsors only be permitted to take a contribution holiday in the year in which a valuation report, filed with OSFI, shows a surplus in the plan on a solvency basis.*

Comments:

a) CGA-Canada supports the view that plan sponsors should be required to develop a formal policy on contribution holidays for inclusion in a Statement of Funding Policy. However, this policy should not violate or contradict the main provisions of the plan design as that of any model as that discussed above.

b) When eying a surplus, one should always be aware that going concern and solvency bases of calculations are done at a point in time, but investment market will turn after performance of the calculations on both bases. To protect the members benefits therefore, the regulator must ensure that any surplus is taken out uniformly and in an orderly manner so that it be and spread over the adequate time frame, not in one lump sum. A fair way would be that if solvency deficiency is funded over a five year period, a surplus, having met all criteria of the Model, be permitted to be taken out over the same time frame, i.e. five years in this case.

Q6. *The Government of Canada is seeking views on whether to amend the regulations to prescribe a solvency ratio level of 0.85 for the purpose of implementing the void amendment provision in the Act.*

Comments:

CGA-Canada supports the rationale for amending the regulations to prescribe a solvency ratio level of 0.85 or higher for the purpose of implementing the void amendment provisions in the Act.

Q7. *The Government of Canada is seeking views on the practicality and desirability of safe harbour protection, and what considerations should be made in the determination of the qualified default investment options.*

Comments:

We support setting of a money market mutual fund or comparable investment vehicle or a short-term bank-GIC or an investment in a treasury bill or any combination of these instruments, as the default option as long as it would not unreasonably impair the ability of the plan member to have adequate choice.

Q8. *The Government of Canada is seeking views on whether to allow the payment of variable retirement benefits directly from the defined contribution account.*

Comments:

CGA-Canada supports the provision related to the payment of variable retirement benefit directly from the defined contribution account as long as the plan sponsor and the members consent to such arrangement.

Q9. *The Government of Canada is seeking views on whether it is appropriate to revise the standard of care for employers sponsoring defined contribution plans to 'good faith' rather than 'fiduciary'.*

Comments:

In respect of the differences in responsibilities of the plan sponsor between a defined benefit plan and a defined contribution plan, the Paper proposes with respect to its role relating to defined contribution plans, that "it may be more appropriate to have a 'good faith' standard of care apply in respect of the employer's role instead of a fiduciary standard. Such a change would not be expected to negatively impact plan members, as the employer would still be responsible for carrying out actions in accordance with the terms of the plan and the Act."

This view could become problematic because we are dealing with the long term welfare of plan participants and any unintentional lapse of care due to the change from "fiduciary" standard to "good faith" affects, with reduced recourse, the welfare of plan participants.

Q10. *The Government of Canada is seeking views on whether it is appropriate to clarify that defined benefit surplus can be used to offset employer's defined contribution current service costs for hybrid plans.*

Comments:

Under the Model, a surplus can only be taken out when specific criteria have been met and it cannot be taken in one lump sum with concomitant consequences on a going forward basis as discussed at length in response to questions #1 and #5. Within this provision, if it still makes sense for the plan sponsor to transfer real funds from the defined benefit plan to a defined contribution plan in respect of its obligation, the sponsor should be free to do so.

Q11. *The Government of Canada is seeking views on required administrative practices that may impede the proper and efficient administration of defined contribution plans.*

Comments:

The Paper states, "As the former plan member is no longer employed by the employer, it may not be appropriate for these administrative costs to be borne by the employer. Accordingly, it has been suggested that former members of a defined contribution plan who are vested be required to have their assets transferred to a pre-determined alternative tax-deferred retirement savings account. This would only take place upon sufficient notice being given to the former member."

We support the views expressed in the Paper that after having given sufficient notice to a former member by the plan sponsor/administrator, the former member(s) be required to transfer their funds to alternative tax-deferred retirement savings account.

Q12. *The Government of Canada is seeking views on whether there is interest in alternative plan designs that may not currently be accommodated by the legislative framework.*

Comments:

The Paper states, "the government is seeking views on whether employers and employees are interested in alternative plan designs that may not currently be accommodated by the legislative framework." Therefore, CGA-Canada considered the issues in detail and has presented an alternative plan design CGA-Canada Funding Model. The Model addresses various deficiencies in the present defined benefit pension plans.

We are quite confident that pension market experts would come up with several legitimate models and that, in the interest of providing benefit security to members and being fair to plan sponsors, all models should be thoroughly explored. The one that provides the maximum benefit security to members without unnecessarily burdening the sponsor will hold the most promise. That said, it is contended that the Model herein defined, or as might be otherwise refined, holds significant promise.

The Paper also states, "One alternative plan design that has been identified is the member funded pension plan. While there can be several variations in the concept, in general, such an arrangement would provide a defined benefit to plan members, but any funding deficiencies would have to be made up by the members rather than the employer. Quebec recently implemented such a design in its framework."

We are intrigued with a plan where the member is responsible to fund the deficiencies and to determine how much different this theoretical plan would be compared to our Model. We would likewise need to better understand what incentives an employer might offer to retain top talent. It would be interesting to know how many such plans have in practice been implemented and the identities of some of the sponsors which may have gone or considered this route.

Q13. *The Government of Canada is seeking views on whether there are legislative impediments to the creation or operation of multi-employer pension plans, and if there are improvements that could usefully be made to the legislative framework for these arrangements.*

Comments:

The Paper notes that, "much of the legislative framework was originally designed to apply to single employer defined benefit plans. As such, it has been suggested that the extension of this framework to multi-employer plans does not appropriately recognize the unique circumstances that apply to these arrangements." We support the view that the framework should be extended to better reflect multi-employer plans.

We support also the notion of "establishing large, pooled defined contribution arrangements for employers and employees who do not already have a private pension plan, potentially with the involvement of the government. Proposals for such arrangements are typically advocated under the premise that investments could be managed professionally and efficiently, leveraging economies of scale due to pooling. Some of these proposals suggest that new annuitisation options could be offered."

We further support the establishment of multi-employer pension plans (MEPPs) as a pension plan design because the MEPPs offer "a number of advantages: they spread risk across a number of employers; they provide employees with benefit transferability when they switch employers within the plan; and, they

allow employers to provide defined benefit coverage without the same administrative burden borne by a single employer defined benefit plan sponsor."

Q14. *The Government of Canada is seeking views on the relevance of Simplified Pension Plans, and whether there are any impediments in the legislation to the adoption of such arrangements.*

Comments:

The Paper states, "To date, the adoption of Simplified Pension Plans has been very limited. The government is interesting in understanding why there has been limited uptake and whether improvements could be made that would make this type of plan more attractive."

We believe that the low popularity of the plan is due more so to limited awareness and communication than to regulatory or legislative reservations.

Q15. *The Government of Canada is seeking views on the appropriateness of reorganising the Act to provide greater clarity on the differing legislative provisions applicable to defined benefit and defined contribution plans. Specific examples of legislative impediments and uncertainties are particularly desired.*

Comments:

We agree with the notion expressed by many experts "for a clearer distinction in the Act between what is applicable to defined benefit plans and defined contribution plans" and the hybrid plans. Therefore, "greater clarity could be provided to plan members and sponsors under the Act by creating separate sections applicable only to each specific type of registered retirement plan."

The alternative view that "greater guidance could be given by the Superintendent to provide clarity on what aspects of the Act and the associated regulations are to be followed for defined contribution compared to defined benefit plans" is however not supported.

Further dialogue around these alternate options with a view to combining the inherent features of either has merit.

Q16. *The Government of Canada is seeking views on ways to improve the regulatory framework governing pension investment.*

Comments:

One of the main objectives of the pension plans is to provide benefit security to members, and this benefit security is required when plan assets have declined considerably or when the plan sponsor has run into financial difficulty. To protect the member benefits from that eventuality, and to avoid corollary negative company performance through external diversification, it is sensible to restrict pension plan investment in securities of the plan sponsor including any subsidiaries controlled by it.

Additional comments:

CGA-Canada has attempted to develop a Model that strives to achieve a balance between the costs incurred by plan sponsors and the pension benefit security to members with a view to mutual benefit and fairness. Some sponsors might perceive the Model to be tilted in favour of members but it need not be so if objectively approached, because to provide pension benefit security to members is of paramount importance to the sponsors as well. Without this security, members will be disenchanted and the employer will have increasing difficulty in retaining top talent. Ultimately, in the absence of sound plan design and an engaged workforce, all parties suffer financially.

It should be noted in closing that many of the elements of the Model have at different times, but sporadically, been incorporated by several progressive employers, e.g., some plan sponsors have shared plan surplus with members via reduction in member contributions.

Should the Department of Finance wish elaboration on any of the aspects of the proposed Funding Model or wish to further discuss the matters envisioned by the Consultation Paper, it is encouraged to contact directly Amar Goomar, M.Sc., CGA, Director, Accounting Standards, at (613) 789-7771 ext. 223 or agoomar@cga-canada.org or alternatively, the undersigned.

CGA-Canada consents to the posting of its submission on the Department of Finance Web site.

Sincerely,

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