

June 7, 2002

Canadian Securities Administrators  
c/o John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
19<sup>th</sup> Floor, Box 55  
Toronto, ON M5H 3S8

and

c/o Denise Brousseau, Secretary  
Commission des valeurs mobilières de Québec  
800 Victoria Square, Stock Exchange Tower  
P.O. Box 246, 22<sup>nd</sup> Floor  
Montreal, QC H4Z 1G3

Dear Sir and Madame:

**MUTUAL FUND GOVERNANCE: CONCEPT PROPOSAL 81-402  
EMPLOYER-SPONSORED CAPITAL ACCUMULATION PLANS**

We are writing in response to the request for comments as to the Concept Paper noted above. We note that the Concept Paper is lengthy, complex, contains many unknowns, and requires a great deal of study and consideration before a full and useful comment on its implications can be made. We are not in a position to give the Paper such consideration in the relatively short period of time for comments. However, we are concerned with its possible implications in an area of mutual concern to The Association of Canadian Pension (ACPM) and the Pension Investment Association of Canada (PIAC); that is, employer-sponsored capital accumulation plans.

Capital accumulation plans (CAPs) are employer-sponsored savings plans, where under the employee may direct contributions made to the plan by the employee or the employer for investment among a number of investment options chosen by the employer/administrator. CAPs include defined contribution plans, Group RRSPs, and non-tax deferred savings plans. CAPs are usually offered through insurers, trust companies or securities dealers. The investment options may or may not be prospectus qualified, and there may or may not be a registered dealer involved. The

employer/administrator selects and monitors the funds offered to plan members, and provides basic investment information and education.

You may be aware of the work of the Joint Forum of Financial Market Regulators' Working Committee on Investment Disclosure in Capital Accumulation Plans (CAPs). Their work has far-reaching implications upon the regulation of CAPs, going far beyond investment disclosure.

ACPM and PIAC formed a joint Task Force in 2000 to address the issues around the regulation of CAPs, and have made two submissions to the Working Committee. Attached is a description of our organizations and their missions. You will be more familiar with PIAC.

We believe that there is a high value in the retirement income system in low-cost group savings plans. Our concern is that the regulation and cost of regulation of CAPs not discourage employers from making savings plans to employees, nor add to the fund management costs borne by plan members, thus decreasing their ultimate return.

The Concept Proposal makes reference to the "broad continuum of investment vehicles that [are not regulated] ... as mutual funds". The references to a "level playing field" and our experience with the Working Committee's proposals suggest to us that governance regulation in respect of mutual funds that are offered in the retail market will be applied sooner or later to CAPs.

We are strong supporters of the protection of CAP members (and all investors) through information, education and plan governance. However, it is important that any form of regulation be considered in the light of the harm it is attempting to alleviate, what alternatives there may be to address the harm, its practical implementation, and its costs. Even small additional costs can significantly impact investment return over an employee's working career. We believe that there are important differences in funds offered through CAPs and mutual funds offered to the retail market. The main difference is the role of the employer/administrator interposed between the seller of the funds and the plan members. The employer/administrator in this key oversight role has a recognized duty to plan members, and has no interest in acting other than in the best interests of those members.

We also note that pension plan governance is taken very seriously by employers, and that the Canadian Association of Pension Supervisory Authorities is working with the pension industry on extensive plan governance guidelines. Accordingly, we ask you to

carefully consider whether an additional governance regime consistent with the regime that is ultimately applied to retail mutual funds, would add much if anything to the protection of CAP members that could be justified on the basis of its cost.

There are many questions to be answered in the Concept Paper in its application to mutual funds, including the very basic questions: how does it work, how much will it cost, and will its application be uniform across Canada. We appreciate that the Paper stops short of asking those questions in respect of CAPs. We want to bring our concerns as to those basic questions in respect of CAPs to your attention at an early stage in the development of the legislative and regulatory response to the issues raised in the Concept Paper.

Sincerely,

*"Priscilla H. Healy"*

Priscilla H. Healy  
Co-Chair ACPM/PIAC Joint Task Force  
on Capital Accumulation Plans

*"Paul Litner"*

Paul Litner  
Co-Chair, ACPM/PIAC Joint Force  
on Capital Accumulation Plans

PHH:cas

Enclosure

cc: Sherallyn Miller  
Chair, Joint Forum of Capital Market Regulators Working Committee  
on Disclosure in Capital Accumulation Plans