

THE UNIVERSITY OF BRITISH COLUMBIA



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The University of British Columbia Faculty Pension Plan
235 – 2075 Wesbrook Mall
Vancouver, BC Canada V6T 1Z1

Fax: (604) 822-9471
E-mail: fpp@hr.ubc.ca

Mr. Davin Hall
Policy Manager (A)
CAPSA Secretariat
c/o Joint Forum Project Office
5160 Yonge Street
17th Floor, Box 85
North York, ON M2N 6L9

[E-mailed to: capsa-acor@fscsco.gov.on.ca](mailto:capsa-acor@fscsco.gov.on.ca)

Dear Sir:

Proposed Guidelines for Capital Accumulation Plans

On behalf of the Trustees of the UBC Faculty Pension Plan, I am pleased to submit our response to the Joint Forum's Proposed Guidelines for Capital Accumulation Plans ("Guidelines").

A. About the UBC Faculty Pension Plan

The UBC Faculty Pension Plan ("FPP") provides pension benefits to the University of British Columbia faculty. As at June 30, 2003, the plan covered 2,579 active members, 312 retired members, 1,157 deferred members, and had assets of \$893.4 million.

The UBC FPP is a trustee plan consisting of four trustees appointed by the University and four trustees elected by the members. A staff of 11 administers the day-to-day operations of the plan.

The UBC FPP is substantially a defined contribution pension plan and is one of the largest such plans in Canada.

B. Some General Comments about the Proposed Guidelines

1. The proposed guidelines set out details of best practices in governing, managing, and operating a capital accumulation plan ("CAP"). We acknowledge the value of the Joint Forum preparing a document that describes best practices and believe a CAP that meets the proposed Guidelines will achieve the objectives as described in 1.2 of the document.
2. As the proposed Guidelines are very detailed, it may be construed that the practices described in the document are the only acceptable practices. We believe there may be other approaches to managing a CAP that achieve the objectives. In other words, the Guidelines should not be presented as being exclusive of all other sound practices.
3. In 1.2.1, the proposed Guidelines state, "These guidelines supplement any legal requirements applicable to capital accumulation plans. They do not replace any legislative requirements." We are concerned that the legislative requirements are already substantial and that the guidelines will simply add another layer of required compliance. If the proposed Guidelines are put into force, we believe that some of the legal requirements already applicable to CAPs can and should be relaxed, as the Guidelines will achieve the objectives

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of that legislation. In particular, we believe that a CAP that meets the Guidelines should be exempt from securities legislation.

C. Comments about Specific Issues

We have comments about the following specific issues

1. *Investment Options*

We agree with the very high standards that the Guidelines contain for the selection of investment options (2.2.1 and 2.2.2), the disclosure of information about the investment options (4.2.1, 4.2.2, 4.2.3, 5.2.1 and 5.3.2) and the monitoring of the performance of investment options (6.2.2).

We believe the description in the draft Guidelines of allowed investment options is incomplete. The Guidelines state that investment options may be investment funds, employer securities, GICs, annuities, other securities, government savings bonds and cash. An investment fund, in turn, is described as a “mutual fund, pooled fund, segregated fund or similar pooled investment product.” Given the exacting standards described in the proposed Guidelines for investment options, we suggest one of two approaches be taken with investment options in the Guidelines:

- the Guidelines **not** include a list of acceptable options and, **instead**, state that any investment option that meets the standards of the Guidelines will be acceptable, or
- the Guidelines include a full and complete list of **all** acceptable types of investment options

Because of their size, larger pension plans such as the FPP have the ability to create investment options that meet the high standards of the proposed Guidelines, but are not specifically described in the proposed Guidelines. For instance, larger pension plans may retain investment managers to manage assets in separately-managed accounts in accordance with the specific requirements of the plan. Such separately-managed accounts may be similar to those managed by the professional investment managers for their other accounts or pooled funds, but may have some differences because of the plan sponsor’s Investment Policy requirements.

Larger plans also have the ability to create customized, low-risk multi-manager investment options. For instance, within each of the main asset classes, the FPP retains several investment managers with different investment management styles to invest on a separately-managed basis only in the portion of the investment market dictated by their specific mandate. We believe our investment options have lower risk than many of the third-party funds offered to smaller pension plans because of our ability to diversify by investment manager and by investment management style. Our balanced fund provides our members what members of other pension plans can only achieve by selecting at least a dozen different investment options. With our rigorous review process (that is similar to the process described in the draft Guidelines), we believe our investment options are safer than the investment options offered by third-party administrators. These types of investment options should be allowed.

The Proposed Strategy for Implementation of the Guidelines for Capital Accumulation Plans (at the back of the document) states, “in the securities sector, it is proposed that the CSA consider providing relief from prospectus and registration requirements based primarily on the guidelines.” We agree. We would suggest further, however, that **pension plans** that adopt the Guidelines should be specifically exempted from securities legislation entirely.

2. *Investment Advisors*

Section 3.4.1 states, “To help CAP members with their investment decision-making in the plan, a CAP sponsor may choose to enter into an arrangement with a service provider or refer members to a service provider who can provide the members with advice about their investment decisions.” Section 3.4.2 describes the process of selecting service providers to provide investment advice.

We believe sections 3.4.1 and 3.4.2 are incomplete. We acknowledge the value of investment advisors, but do not believe we are in a position, nor should any plan sponsor be put in a position, of having to select investment advisors for their members. The term “investment advisor” is not a

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legally defined term and many individuals with a wide range of qualifications (or lack of qualifications) claim such a title. We believe the best assessment of investment advisor competency is from those individuals who have used the services of investment advisors. Accordingly, the FPP maintains letters of references on file from members who have used the services of specific investment advisors. In turn, the FPP administration will provide to members, on request, the names of investment advisors for whom the FPP administration has received at least five letters of recommendation. This approach has been highly successful and should be allowed under the Guidelines.

3. Decision-making Tools

In 1.3.1, the Guidelines state, “The CAP sponsor is responsible for setting up the plan, providing investment information and decision-making tools to CAP members....” Although our concern about this statement may appear to be one about terminology – in particular, the meaning of the term “decision-making tools” – we believe the Guidelines over-emphasize the value of such tools. Software characterized as a “decision-making tool” may often provide plan members with the ability to generate additional information, based on their own specific circumstances. Their use of the software may help them make decisions, but the software does not actually “make decisions” nor is it crucial to the decision-making process. As these “decision-making tools” often use economic and financial assumptions that, in light of recent economic and financial performance, may reasonably be questioned by members, the provision of such tools should not be a requirement.

D. Concluding Remarks

The Trustees of the FPP would like to thank the Joint Forum for allowing us the opportunity to respond to the draft Guidelines.

We believe CAPs should be administered with high standards and best practices, and acknowledge that the Joint Forum has published examples of these high standards in the proposed Guidelines.

We believe further that high standards of CAP operation should be balanced with administrative ease.

We hope to stay involved in the process of the development of the Guidelines and look forward to being kept up to date by the Joint Forum as it proceeds.

Yours truly,

UNIVERSITY OF BRITISH COLUMBIA FACULTY PENSION PLAN

Dr. Stan Hamilton

Chair of the Board of Trustees

SH/cn