

## Guidelines for Investment Disclosure & Decision Making in Capital Accumulation Plans



時來運到

## CAP Guidelines are now a reality

### Background

- Dramatic growth in CAPs
- Sponsor shifted risk to plan members
- No regulation

Joint Forum of Financial Regulators concerned.  
Produce two "CAP Principles" papers.

### Process

2002

- **August:** Jt Forum Industry Task Force created
  - Representatives from various industry associations: CLHIA, CPBI, ACPM, PIAC, BAR, Actuaries, Board of Trade etc.
  - Mandated to take revised Principles & create Guidelines document
  - Principles document to "disappear"
- **December:** Industry Task Force expanded to include CAIFA, Canadian Labour Congress, Canadian Consumer Association

### Process

2003

- **January:** Draft Guidelines to be completed
- **Jan-April:** Approvals by various regulatory bodies
- **April:** Release CAP guidelines for public commentary
- **July:** Re-work guidelines based on feedback
- **October:** Complete redraft by Jt. Forum to address inconsistencies by "plain language"
- **November:** Referring bank to OFSI re Investment Rules
- **May 28, 2004:** Final guidelines published

## What are they?

- Best practices
- Expectations of regulators
- Support the continuous improvement and development of industry practices
- Serve as:
  - a model of what should be happening with respect to CAPs
  - representative of what the majority are already doing
  - a welcome guide and reference tool that works to the benefit of all parties to a CAP

## What aren't they?

- Not legislative requirements
- Not part of provincial pension legislation -- yet!
- Not required to be followed by plan sponsor
  - but strongly encouraged and expected to do so

## Definition of CAP

**Tax assisted investment or savings plan that permits the members to make investment decisions among two or more investment options**

Examples may include:

- Defined contribution registered pension plan
- Group registered retirement savings plans or registered education plan
- Deferred profit sharing plans
- Employee savings plans (including stock plans)

## Highlights

- Format: Lifecycle of a CAP
  - Definitions, purpose, set up; investment information & decision making tools, introducing plan, ongoing communication, maintenance, changes / termination
- CAP's Defined
  - Possible differentiation on primary/secondary or retirement/savings
  - Exclude "compensation" plans
  - Permits member investment decisions
- Plans primary purpose must be defined eg: retirement or stock purchase etc.

## Highlights

- Sponsor Responsibilities
  - Set up, introduction, investment tools & information, ongoing communication
  - May delegate responsibilities
  - Monitor service providers if using
  - Document delegations to third parties
  - Document relevant discussions & decisions re: establishment & maintenance of CAP
  - Prudently select managers & offer diversified range of options with different risk/return characteristics
  - Prudently monitor performance against standards & benchmarks, take appropriate action where performance unsatisfactory vs. objectives of fund

## Highlights

- Sponsor Responsibilities (cont'd...)
  - Allow reasonable opportunities to switch (at least mthly)
  - Establish default option
  - Ensure records are properly prepared & maintained & prompt action taken to correct identifiable errors
  - Establish monitoring process

## Highlights

### Initial Disclosure

- Features of CAP
  - Fund mapping, contribution levels etc.
- Member Rights
  - Access to initial & ongoing information, documents and educational materials as outlined in guidelines
- Member Responsibilities
  - If choosing investments, responsibility to manage their investment account & resulting outcomes
  - Responsible to educate themselves utilizing tools, information

## Highlights

### • Fund Info

- Name, objectives, permissible holdings & how to obtain info, name of underlying funds, foreign payments & implications
- Describe process for making choices
- Describe transfer options
- Describe fees - aggregate level

### • Performance

- Fund name
- Benchmark: description & performance, multiple periods, gross or net, past performance disclaimer, method of calculation

## Highlights

- No Investment Decision
  - Establish & communicate policy
- Sign-up
  - Provide written instructions on how to access info (eg. website, IVR, 1-800 etc.)
- Statements
  - Nothing new, but prescribed minimums, make fees available

## Information, Tools, Education

### • Investment Principles:

- Asset mix, diversification & risk tolerance, general retirement planning
- Tools
  - Duty to review
  - Needs of entire membership, not specific individuals

### • Advisors

- If provided, must use due diligence in selection/monitoring
- Must disclose privacy rights

## Highlights

- Investment Options - info made available
- Transfer Options
  - Info available
  - Freeze description
  - Changes to process
  - Default mapping
- Significant Changes - reported

## Final word

- Not as onerous as first thought
- Sponsor must be part of the process
- Sponsors looking for guidance and support
- Communication of responsibilities is a key element of success
- Action checklist is a powerful tool to facilitate the process
- Results in success for all stakeholders!



**Questions?**