

Our File: P2500-2-1

March 5, 2004

Ms Nancy MacNeill Smith  
Chair  
CAPSA Secretariat  
5160 Yonge Street, 17<sup>th</sup> Floor  
Box 85  
North York, Ontario M2N 6L9

Dear Ms Smith:

**Subject: Recommendations Concerning Federal Pension Investment Rules**

Thank you for your letter of February 5, 2004 setting out CAPSA's recommendations on the federal pension investment rules.

OSFI appreciates your efforts to consult pension stakeholders in the jurisdictions that have adopted the federal investment rules, to communicate their views to us, and to develop recommendations to address the issues identified.

I note that the focus of CAPSA's review was on certain technical issues related to how the 10 per cent concentration limit on pension investments is applied in practice. As your letter indicates, I understand that CAPSA did not, as part of this review, set out to consider the merits of replacing quantitative investment limits with a different approach.

OSFI is inclined to be supportive of recommendations that help make the 10 per cent rule more effective, or administratively easier to apply, as long as they do not, in our view, risk compromising the rule's effectiveness in promoting prudent investment choices. I also agree that certain initiatives you identify would need to be coordinated with other rules and with the work of other regulators, including through the Joint Forum. Accordingly, I have asked my staff to review your recommendations in the context of relevant Joint Forum initiatives as well as the guidelines for Capital Accumulation Plans.

Notwithstanding our openness to consider recommendations aimed at improving the 10 per cent concentration rule, OSFI believes that the rule is an important complement to the prudent person standard set out in the legislation. We do not have any intentions at this time to consider amendments to the investment rules that would either eliminate or ease the quantitative investment limits.

Our preliminary view is that CAPSA's recommendation with respect to the treatment of investments in different entities within a conglomerate could, in some circumstances, undermine the principle of diversification that is the fundamental basis for the 10 per cent rule. We will, therefore, want to consider very carefully whether this recommendation is one that we would want to pursue in conjunction with the other recommendations, which appear to be of a more technical nature.

Once again, I would like to thank CAPSA for its hard work in developing these recommendations. My staff will wish to continue to discuss with CAPSA appropriate changes as we consider the follow-up actions, including possible further consultations with stakeholders on specific issues.

Yours sincerely,

Nicholas Le Pan  
Superintendent