



June 9, 2022

Subject: CAPSA Guideline on the Use of Leverage in Pension Plans

On behalf of the Canadian Association of Pension Supervisory Authorities (CAPSA), we are pleased to release the consultation draft of a new CAPSA Guideline: **Leverage and the Effective Management of Associated Risks.**

CAPSA invites your comments/feedback on this Guideline.

Background

Canadian pension plans have been increasing the use of leverage in their investments and it is becoming a key factor that needs to be managed. CAPSA established the Leverage Committee (Committee) with a mandate to develop guidance that promotes good governance on leverage use in pension plans, and a better understanding of leverage and its implications for risk management.

Through the engagement of an Industry Working Group (IWG) that provided technical knowledge, expert recommendations and valuable industry perspective for this sophisticated topic, CAPSA is pleased to announce that it has developed a draft Guideline which is now being released for public consultation.

Leverage and the Effective Management of Associated Risks

While leverage can be employed for many reasons, including but not limited to risk reduction or risk-taking, it is generally associated with more complex investment strategies and products and can therefore expose a plan to additional risks. The implications of leverage for a wide range of risks as well as for pension plans' operational requirements need to be well understood and managed by the plans that choose to employ it. The key objective of this Guideline is to outline sound practices and factors that need to be considered for managing leverage and the associated risks when leverage is incorporated into pension plans' investments.

For pension plans that use a significant amount of leverage, metrics that measure leverage can help pension plans understand the amount of leverage used and its impact on investment and funding risks. Leverage use and its implications for risk management are challenging to measure, since leverage comes in different forms and can impact various risks affecting pension plan assets and liabilities. It is CAPSA's view that no single metric can capture leverage comprehensively for all plans. One of the key objectives of this Guideline is to offer some suggested metrics and tools that may be helpful to pension plan administrators and their delegated investment managers for measuring leverage.

The intention of the Guideline is to provide relevant guidance on leverage, to plans of various sizes. The best practices on leverage governance covered by the Guideline can benefit all pension plans while the technical tools and discussions on leverage measurement may be more useful for larger plans that use leverage in their investment strategies.



CAPSA is considering integrating the Leverage Guideline into an inclusive 'Risk Management' Guideline which would encompass a broad range of common risks. Details on this approach are provided [here](#); we look forward to receiving your feedback on it.

Stakeholder Comments

We request that your comments and feedback on the draft Guideline be as specific as possible.

Please provide [your submissions](#) by September 15, 2022. CAPSA will fully consider all comments as it works towards finalizing the Guideline and will publish all submissions on the CAPSA website after the consultation period.

Thank you for your participation.

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