



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Andrea Taylor
Director

July 29, 2011

Mr. Jeremy Rudin
Assistant Deputy Minister
Finance Canada
FSP - Assistant Deputy Minister's Office
140 O'Connor St.
Ottawa, ON K1A 0G5

Dear Mr. Rudin:

Re: Pooled Registered Pension Plans (PRPPs) – Proposed Framework – Detailed Elaboration of Key Elements dated June 24, 2011 (the Framework)

The Investment Industry Association of Canada (IIAC) is pleased to provide this supplement to our submissions dated February 16, 2011 and March 29, 2011, following up on the questions discussed at the meeting we attended on July 4, 2011. Our detailed comments on the portions of the Framework that are most relevant to our members are attached.

The Investment Industry Association of Canada (IIAC) is writing to convey our continued support for the government's efforts to improve the retirement savings of Canadians. We continue to believe that PRPPs can fill an identified gap in retirement savings options by providing small companies and self-employed Canadians with an alternative retirement savings vehicle that offers the potential for economies of scale and lower costs.

To achieve the policy goal of bolstering the retirement savings of Canadians, PRPPs should be designed to complement existing retirement savings plans (RPPs, RRSPs (including Group RRSPs), RRIFs, TFSAs). PRPPs should provide a real alternative retirement savings plan for Canadian employers unable to offer a defined benefit or defined contribution pension plan because of administrative costs, or a Group RRSP because of payroll taxes. PRPPs should not be

designed as an incentive to encourage Canadians to shift their savings out of programs that are currently meeting their needs.

We are concerned that the original policy goal of PRPPs – to provide an alternative vehicle for retirement savings of Canadians – would be undermined by the exclusion of financial advice in an effort to offer Canadians a simplified uniform plan.

The IIAC represents 180 investment dealers in Canada (both bank-owned and independent firms), that provide comprehensive investment services and advice to Canadians. Our members manage over \$950 billion in investments, with almost a third invested in registered retirement plans through millions of accounts across the country. The success of the PRPP program will depend upon leveraging existing relationships between financial institutions and clients, and closing this avenue prematurely could reduce the effectiveness of the PRPP program. It also seems to run counter to the recommendations of the federal government's Task Force on Financial Literacy, which identified the importance of qualified professional advice in helping Canadians to save more and make better financial choices.

In consultations on the draft Framework, our members recommended a PRPP program that is sufficiently flexible to take into account the profiles and needs of self-employed individuals and small business owners who are the target PRPP market. The PRPP program proposed in the most recent version of the Framework does not provide this flexibility, because it discourages personalized advice and active investment. The PRPP model should embrace a range of investment approaches and functionality, including advice and discretionary fund management, with costs that are reflective of the value and services provided, and fully transparent to PRPP participants. PRPP administrators should not be restricted to certain segments of the financial sector, nor should mandated minimum costs be imposed under the PRPP Framework. Both conditions would restrict choice of investment products and services in PRPPs that would constrain the ability of the administrator to balance risk and return. This constraint could adversely impact portfolio return to the disadvantage of the plan member.

As such, we respectfully recommend that you reconsider aspects of the Framework that limit the range and type of PRPP funds that can be offered, allowing more flexibility for financial institutions to offer PRPPs that include built-in advice and service components for employers and employees, and allowing PRPP participants to make choices based on their own needs and requirements.

We have written to Minister Menzies and the provincial finance ministers to communicate these concerns. Our industry appreciates the opportunity to provide you with information to assist with the development of the PRPP framework and we look forward to further consultation on this matter.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'ATaylor'.

Andrea Taylor

Cc: Leah Anderson, Department of Finance
Dan Calof, Department of Finance
Tim Cleland, Department of Finance
Lynn Hemmings, Department of Finance
Brent Mizzen, Department of Finance

IIAC Comments on Proposed PRPP Framework
Detailed Elaboration of Key Elements

GENERAL COMMENTS

The members of the Investment Industry Association of Canada (IIAC) are over 180 securities dealers across Canada (representing both bank-owned and independent firms) that advise, trade and manage investments for Canadians.

In this attachment, we provide a number of detailed comments on particular points of the Framework, but we also urge government to reconsider the stated goals of the PRPP:

- Provide an accessible, straightforward, and administratively low-cost retirement option for employers, the self-employed and employees of companies that do not offer pension plans;
- Enable more Canadians to access the benefits of membership in a large, pooled pension plan;
- Allow for portability of benefits to facilitate easy transfer between plans; and
- Ensure that savings are invested in the best interest of plan members.

We also urge government to reconsider the criteria we believe will help maximize the success of the PRPP:

- Continuation of intensive consultations;
- Eligibility of all regulated financial institutions as PRPP administrators;
- Minimized complexity/risk to maximize economies of scale;
- Acceptance of a range of product and service options, including low-cost; and
- Implementation time commensurate with the complexity of PRPP requirements.

If the government is planning on introducing this program in 2012, financial institutions may not be in a position to immediately offer PRPPs to the public. However, we would like to re-emphasize that the implementation period can be reduced if the PRPP program is designed in a

simple, straightforward and uniform fashion that can leverage existing industry platforms and systems.

Eligible Administrators

We are concerned that the revised Framework continues to use the term “fiduciary duty” without further explanation of what this duty entails or what regulatory objective is achieved through its use over and above the regulatory framework that already exists for financial institutions.

We reiterate the position from our previous submissions that all regulated financial institutions (including all IIROC member investment dealers) that are subject to appropriate custodial arrangements with regulated trust companies should be eligible PRPP administrators. This will assist the government in meeting its goal to broaden the retirement savings choices available to Canadian businesses and individuals interested in accessing PRPPs.

In our industry, PRPPs should be constituted legally as trusts, through trust agreements, as they are currently for other registered savings products. The arrangement would exist in much the same way that it currently does for registered savings products – with the investment dealer as the “client administrator”, the trust company as trustee, and the plan member (the contributor or client).

In order to create a program that is both attractive to financial institutions (especially from an administrative point of view) to offer, and effectively regulated for the protection of investors, the federal and provincial governments must be clear on the purposes behind imposing a fiduciary duty upon administrators.

In our opinion, serious consideration must be given to the legal relationships and requirements already existing between financial institutions and their respective industry regulators. Government should focus primarily on two areas of regulation:

- Regulation respecting the safekeeping and prudent management of the invested funds; and
- Regulation of financial institutions providing guidance or advice to a client, including dealing appropriately with potential conflicts of interest that might arise from the promotion of proprietary PRPP products.

With respect to both of these areas, we believe that our members are already appropriately regulated, and in many respects, are more effectively regulated than our counterparts in other areas of the financial industry that currently offer registered pension plans.

We have already provided extensive information on the regulatory requirements of our members which we will not duplicate here. We refer you to our submission dated March 29, 2011.

Duty of the Administrator

We have concerns about the reference in this section to a duty of care that is “fiduciary in nature” and refer you to our comments made in the previous section with respect to fiduciary duty.

The Framework states that “the administrator has no responsibility nor authority to alter any investment choice made by the member unless requested to do so by a plan member”; however, this restriction seems to run counter to the stated intention that PRPPs should include auto-escalation (see below). Auto-escalation would require an altering of investment choice made on an automatic basis, and these changes would not be at the request of the plan member. It is not clear how these parts of the Framework would work together in practice.

As mentioned in our covering letter and the general comments, we have serious concerns about the portions of the Framework that deal with the provision of advice. While we understand that a PRPP administrator would be under “no obligation” to provide personalized investment advice, we believe that the statement that “a plan member could request personalized investment advice on a fee for service basis” indicates a choice on the part of government to remove the advice model from the PRPP altogether.

This “additional fee for advice” model runs contrary to the business model of the investment industry which has developed over time in response to the needs and choices of clients. Clients benefit from an inclusive cost model where they are more likely to make good use of advice. Clients are much less likely to access advice when they are charged separately and believe that they will be “nickel and dimed” for services. Also, it is more likely that where advisors work proactively with a clients (as opposed to a model where clients must contact advisors), they will improve their savings habits and increase their overall wealth.

Finally, it is not clear what is considered an “inducement” to an employer. For example, if a plan administrator provided a free retirement planning seminar for employees, would this be considered an inducement?

Attributes of Investment Design of PRPPs

The Framework specifies that “total all-in costs for all PRPP products must be institutionally based, rather than retail based”. Our members have had difficulty understanding what this statement means, compounded by the concern that government will be mandating “low cost,

low service” products and moving away from a flexible PRPP Framework that includes a variety of service options.

As articulated in our previous written submissions, we do not believe that “low cost” and therefore “low service” is appropriate for all individuals, which is why “low cost” should not be mandated as the only available choice. Also, mandating an “institutional” cost for what is essentially a hybrid of an “institutional” and a “retail” product (i.e., a product with larger economies of scale but with more retail service than a traditional pension because of the nature of the targeted small businesses and individuals) is not a feasible business model for many financial institutions. By designing the Framework in this fashion, government may be eliminating the full service brokerage channel’s ability to offer this product to their clients.

Attributes of the Default Investment Option

As we’ve stated in our previous submissions, while we agree that a default option should be provided, we do not recommend that the regulations dictate what that default should entail. Instead, we believe there should be flexibility for the administrators to determine the appropriate default option for the PRPP product they are providing.

Attributes of Additional Investment Options

Again, we recommend providing flexibility to determine what these non-default options should be rather than outlining specific, mandatory requirements in regulation.

Attributes of Investment Disclosure

We have concerns that making disclosure requirements more strict under PRPP than for existing savings products will make PRPPs less attractive for financial institutions to provide. For example, costs are not currently disclosed both as MER and the dollar amount, which would require additional cost for financial institutions to build systems to provide this kind of disclosure.

The Framework also provides that “costs will not include fees for advice or marketing; if advice is required, it will be separately provided and paid outside of the PRPP framework”. The importance of advice has already been described in this submission. Another concern is about the cost of marketing, which is currently included as part of general administrative costs and not separated out for payment outside of the cost of the product. It is not clear how these kinds of marketing costs could be calculated and disclosed; experience with similar types of programs that require small fees to be separated from the entire cost of a product or service, shows that fees like this cannot be passed onto a client through a separate charge.

Our members have also learned through experience that launching a new product successfully requires a great deal of marketing. Financial institutions will be forced to absorb these costs and this, in turn, will make the program less attractive to financial institutions.

We recommend making disclosure requirements as similar as possible to those that are required under existing rules – to minimize costs by leveraging existing systems. For example, a PRPP member could be provided with general information on costs on a “per \$100 or per \$1000” basis.

Auto-enrolment

The Framework states that each jurisdiction will have its own set of rules for re-enrolment (or not) when a member opts out, or sets contributions to zero (consistent with current system of member entitlements being based on rules of jurisdiction of employment). However, we strongly recommend one set of rules for all jurisdictions – administering different rules across jurisdictions will increase costs. During our consultation session with Finance on July 4th, a “blank page” approach to achieve a highly synchronized legislative framework was discussed, and we hope that this can be achieved.

Portability

The Framework provides that when a member leaves the employment of a participating employer, he or she would have the following options:

- a) transfer the PRPP balance to the new employer’s PRPP;
- b) keep the assets in the existing PRPP; or,
- c) transfer to another registered plan, which could include another RPP, or locked in RRSP.

However, it is not entirely clear who makes this choice between the member, the employer, and the administrator. The language implies that it would be at the option of the member, however, we would appreciate clarification on this point, and also with respect to the requirements of an administrator to take on (or keep) a PRPP member. Our members indicated concerns about the costs associated with the administration of small amounts of savings, and suggested that there could be a minimum threshold, especially with respect to option (b) – where an administrator is being asked to keep the assets of an employee that has left the participating employer.

We have serious concerns about the provision allowing PRPPs as eligible vehicles into which registered savings can be transferred. While we understand the need to provide members with flexibility to be able to consolidate their savings, we believe that, in the absence of any professional financial advice, this type of provision could allow a “shift” in savings from existing

savings plans and products. ***The government should carefully consider the effect that this could have on the government's existing savings programs (RRSPs, RRIFs, TFSAs).*** Those programs are offered by all financial institutions (large and small) at varying ranges of costs and risk. Setting up a new program that is low cost, low yield, low service, which might only be available through certain financial institutions may be creating a situation where a significant shift in investing patterns takes place and investors are ultimately disadvantaged. We ask what analysis has been done regarding the impact of such a shift on investors, on financial institutions and on the marketplace.

Role of Employer

We believe that the responsibility to provide written notice that the employer is choosing to offer a PRPP to its employees should rest solely with the employer, and that the employer, should not be permitted to delegate this responsibility to the administrator. In such an instance, the administrator would be relying on all of the information provided by the employer, and should not be responsible for the accuracy of the information, or to be liable in the instance that an incorrect address was given for notice, for example.

The PRPP is being targeted at small employers and self-employed persons, and as such, the government should consider that it will be more costly to administer PRPPs for these types of entities and persons who may not have automatic payroll systems.

If the employer decides to offer a PRPP from a different administrator, the Framework states that the employer must:

- Provide written notice that the employer is choosing to offer a different PRPP, with at least 60 days advance notice.
- Provide written notice that the employee's assets in the existing PRPP may be transferred to the new PRPP, with at least 60 days advance notice.

However, it is not clear if this notice should be given to the administrator, the employee, or perhaps both. It is not clear what obligations the employer will have to the administrator in this situation.

This section also provides that employers must not accept any kind of "inducement" from PRPP administrators seeking to offer their plans to the employer's members. But again, it is not clear what is considered to be an "inducement".

Finally, the Framework provides that employers must disclose "other business dealings with the PRPP administrator". However, there is no indication of the scope of the disclosure that is required. We are concerned that this kind of requirement may actually undermine the success

of the PRPP, as an existing relationship between an administrator and a small employer seems like an ideal opportunity to introduce the small employer to the PRPP program. Depending on its scope, such a provision may also deter employers who may not want sensitive financial information disclosed to employees (i.e., the employer has received bridge financing because the business has gone through difficulties; or even personal information where it is a very small employer). It is not clear where the line of disclosure will be drawn.

Employer Participation

As mentioned in our previous submissions, we believe that allowing each province or territory to make its own determination as to whether it wants to require employers to offer their employees access to a pension plan will lead to different requirements in each jurisdiction, negatively affecting costs and portability.

Locking-in Rules

Again, different requirements in different jurisdictions will negatively affect costs and portability.

Supervision

PRPPs should be federally administered under one set of rules and not by pension legislation in each jurisdiction. Each participating member of the financial industry already has a supervisory body to regulate and enforce standard for their members.

The scheme proposed in the Framework seems administratively cumbersome and impractical. Uniformity and consistency will be critical to achieving economies of scale and low costs, and what is proposed in this section runs counter to these recommendations.

Existing requirements and legislation produced systems of communications that have been developed and work for registered products (RRSP, RRIFs, TFSAs, etc), and these same approaches, in general, should be leveraged for PRPPs.

Placing inappropriate and unnecessary duties on administrators of what are essentially large pooled capital funds to provide a lower cost savings vehicle will increase costs and reduce the number of administrators that will offer PRPPs – they should not be treated like a traditional pension plan and should not be regulated by legislation designed for traditional pension plans.