OSFI's Pension Watch List Grows

25 more DB plans under scrutiny.

Continued weakness in capital markets means a list of at-risk pension plans overseen by the federal Office of the Superintendent of Financial Institutions (OSFI) has burgeoned by 50% in the past year.

"I think what we are seeing in plans within our jurisdiction is probably no different from what other regulators are seeing in the pension world," says Karen Badgerow-Croteau, managing director for OSFI's private pension plan division. OSFI monitors all federally registered financial institutions and pension plans.

Although OSFI's watch list grew from 50 companies in 2002 to 75 this year, Badgerow-Croteau says an uptick is to be expected with the current slump in stock prices and corporate revenues. "It's cyclical for sure," she says. The names of plan sponsors on the list weren't made public by OSFI.

Plan underfunding—or the threat of it—is only one of the reasons why a company might wind up on the watch list, says Badgerow-Croteau. "We might also have concerns about the plan sponsor itself, or the industry." She adds that a plan's presence on the list is not an indicator of trouble, merely an early-warning measure to ensure timely action is taken.

While a dip in pension asset values might be expected during a turbulent economy, OSFI is tightening some of its checks and controls on the plans it monitors. In a recent speech, OSFI superintendent Nick Le Pan said the agency will take more frequent measurements—known as stress tests—of the 370 defined-benefit plans it monitors.

"We stress-test all defined-benefit plans to highlight those that may be in the red, and we come up with an estimated solvency ratio as a result of the stress-testing," says Badgerow-Croteau. Performed annually at the moment, those stress tests will soon be held every six months to provide even earlier warning of plans in trouble, she says.

Badgerow-Croteau also says that OSFI has been pressed by some plan sponsors to relax its prohibition restricting pension plans from holding more than 10% of their assets in one investment. So far, she says, it's stood up to the pressure. "I think we feel that decision, in light of what's occurred in the marketplace, was very appropriate."

ANNOUNCING the winners of the third annual BARCLAYS Research Award

This spring, Barclays Global Investors Canada and *Canadian Investment Review* held their third annual installment of the Barclays Global Investors Canada Research Award for excellence in Canadian capital markets research.

This year's winning paper—"Incentive Fees, Valuation and Performance of Labour-Sponsored Investment Funds"—is by Professor Scott Anderson of Toronto's Ryerson University, and Professor Yisong S. Tian of York University. Professors Anderson and Tian found that, despite the enticement of a tax credit for investing in LSIFs, a combination of high management fees and poorer performance relative to other investments largely offsets those tax advantages. The full version will be published in an upcoming issue of *Canadian Investment Review*.

The submission process for the 2004 Barclays Research Award is now underway. All entries must be received by February 1, 2004. For more information on the awards and the submission process, please visit our Web site at http://www.investmentreview.com or contact James Lewis, associate editor, at (416) 764-3958 or jlewis@rmpublishing.com.

NEW CAP PROPOSALS HAVE PENSION IMPACT

As the "four pillars" of Canada's financial services industry move closer together, a consortium of Canada's pension, insurance and investment regulators has proposed a set of new guidelines for capital accumulation plans.

Nurez Jiwani of the Joint Forum of Financial Market Regulators says the agency was set up in 1999 as "a response to a changing marketplace where you don't see, like you had before, an insurance sector, a pension sector, and a securities sector." As a result, the Joint Forum has proposed universal guidelines for capital accumulation plans—simply defined as "all employer-sponsored savings plans in which employees are empowered to decide how their savings are invested," including defined contribution pension plans, group RRSPs, employee stock purchase plans, and profit-sharing plans.

William Kyle, vice-president of group retirement services at London, Ont.-based insurer London Life, was consulted during the early stages of the process to provide a service provider's perspective. "There's going to be fine-tuning, but on the whole the best practices were fairly easy to identify because they exist today," he says.

Drafting guidelines that apply equally to pensions, insurance and investments took some skill, Kyle says. "Some will look at it and say there's too much to comply with, others will say that it's too vague, but I think they've done a good job at striking the balance."