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SIP&Gs Required to Reflect Asset Mix Shift Because of Change in Foreign Content Rule

The 1990 Federal budget, tabled in the House of Commons on February 20, 1990 as Bill C-28, proposed a measure allowing for the gradual increase of the foreign property content of pension funds from the prevailing 10 per cent to 20 per cent at the rate of 2 per cent per year from 1990 to 1994. The Bill has yet to be passed, but it is currently expected that the legislation will be adopted by December 15, 1991.

Even though Bill C-28 has not been passed, some pension funds proceeded to increase their foreign content to the new 12 per cent level for that year. This change was made based on the principle that just as new taxes are made effective as of the budget date, so are the new tax allowances.

As it became clear that no legislative action on the Bill would be taken before year end, the pension fund industry sought assurances from Revenue Canada that funds would not be penalized for having increased foreign content up to 12 per cent in 1990. In 1991, Revenue Canada replied that "no negative tax consequences will result to those funds which have adopted this limit in making their investment decisions this year." This is a tax matter and does not come under PBA, 1987 jurisdiction, but if this principle holds true, funds could increase their foreign investment levels to 14 per cent in 1991. However, some funds followed a policy of not exceeding the 10 per cent ceiling until the law was changed.

This issue may cause plan Administrators to revisit their Statement of Investment Policies and Goals ("SIP&G") on the occasion of its annual review and confirmation. There are three possible courses of action:

1. Pension funds that have gradually increased the level of their foreign investments may wish to pursue this policy within the limits allowed by the *Income Tax Act* (Canada). A simple "permissive" amendment to their SIP&G giving them this latitude would be sufficient.

2. Funds that have remained at the 10 per cent level may now want to make the jump to 16 per cent in 1992 (assuming that Bill C-52 will be adopted at the end of 1991). The SIP&G should be amended accordingly with a restated asset mix policy.

3. Funds that have remained at the 10 per cent level may judge that a jump to the 16 per cent level is too drastic an asset shift. Such a jump would represent an increase of 60 per cent in foreign investments, and might unduly raise operating costs as a result of additional transactions or changes in manager assignments. This question should be addressed in the context of their asset mix policy, and an amendment to the SIP&G should be filed with the PCO.

This article was accurate at the time of writing.