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FSRA is actively reviewing all FSCO regulatory direction, including but not limited to forms, guidelines and FAQs.

Until FSRA issues new regulatory direction, all existing regulatory direction remains in force.

## Investment

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To improve the effectiveness and efficiency of the risk-based monitoring of pension investments, FSCO has exempted designated plans from the annual IIS filing
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FSCO is committed to adopting a risk-based approach for the supervision of pension plans. The goal is to ensure that the interests of pension plan members are duly protected.
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## Designated Plans Exempt From IIS Filing

Financial Services Commission of Ontario's (FSCO) [risk-based monitoring of pension investments](#) is a useful program. Exempting designated plans from the annual Investment Information Summary (IIS) filing streamlines the pension investment monitoring process and makes the risk-based monitoring program more effective and efficient.

To improve the effectiveness and efficiency of the risk-based monitoring of pension investments, FSCO has exempted designated plans from the annual IIS filing. For any fiscal year ending on or after December 31, 2007, designated plans are no longer required to file the IIS form with FSCO. Notwithstanding this exemption, designated plans registered with FSCO must comply with all the requirements set out in the Pension Benefits Act and Regulation 909, including the federal investment regulations and the filing of financial statements.

Designated pension plans, as defined under section 8515 of the Regulations under the Income Tax Act (Canada), are a special subset of defined benefit pension plans that are normally set up for connected persons and/or other highly compensated employees.

Designated plans may wish to continue their use of the [IIS form](#) as a tool to help ensure compliance.

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## Risk-Based Monitoring of Pension Fund Investments

The Financial Services Commission of Ontario (FSCO) is committed to adopting a risk-based approach for the supervision of pension plans. The goal is to ensure that the interests of pension plan members are duly protected.

FSCO believes that the implementation of the risk-based investment monitoring program progressively raises awareness of the effect of pension fund investments on pension plan solvency, brings investment management deficiencies to the attention of plan administrators and encourages adoption of prevailing industry best practices.

In view of the growing needs and similar regulatory practices in other jurisdictions in Canada and abroad, FSCO developed a risk-based pension investment monitoring program that includes an [Investment Information Summary \(IIS\) form](#). The IIS form is supplementary to the financial statements required under section 76 of Regulation 909, and has been approved for use under section 113.2 of the Pension Benefits Act by the Superintendent of Financial Services.

[The Investment Information Summary- Form 8](#) is required to be filed by all defined benefit pension plans registered with FSCO, [exempt designated plans](#), within six months after each fiscal year end of the plan. The information included in a pension plan's IIS form is used in conjunction with information in the other filings made on behalf of the pension plan.

The fact that a plan has been flagged by the automated assessment process is not a judgement on FSCO's part as to how well the investments of the plan's assets are being managed or whether they are being invested prudently. Rather, flagged plans will simply have been identified as warranting a further review, which may or may not result in any follow-up action being taken by FSCO. If any non-compliance with investment regulations and proper standards is identified through the risk-based monitoring, FSCO will follow up on the non-compliance with the plan administrator.

The continuous improvement in pension investment management resulting from this program will help enhance the long term financial health of pension plans in Ontario.

### [Risk-Based Pension Investment Monitoring Model](#)

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## Risk-Based Pension Investment Monitoring Model

As an initial step, FSCO developed and implemented a risk-based monitoring program in 2000 that focused on the funding of defined benefit pension plans. Besides pension plan contributions, pension fund investment returns can have a significant impact on the funded status of pension plans. Accordingly, FSCO believes it should extend its risk-based approach and complement its existing monitoring of pension plan funding with the monitoring of pension fund investment activity.

### **Pension Investment Monitoring Model and Investment Information Summary (IIS) Form**

The [Investment Information Summary \(IIS\) form](#) aligns with the information required to be filed in the plan's financial statements under section 76 of Regulation 909. In addition, only the plan administrator will be required to certify the accuracy and completeness of the information contained in the IIS form, and no certification from the plan auditor or any other third party will be required.

Identifying plans which could be subject to review will be determined with predefined risk indicators. These risk indicators were developed from the plan information filed with FSCO through the IIS form and in other filings. For example, plans with solvency concerns (as described under Regulation 909), with a high degree of mismatch between assets and liabilities or that have not complied with specific requirements of the federal investment regulations will be flagged for review.

It should be noted that simply because a plan has been flagged for review, this would not in itself be a judgement on FSCO's part as to whether the plan's assets are being invested prudently or imprudently or how well the pension fund is governed. Flagged plans require review to some extent (and in many cases may result in no action being taken by FSCO).

For further information about FSCO's risk-based pension investment monitoring program, please contact Mr. Mathew Ou of FSCO at:

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## Risk-Based Monitoring of Pension Investments

To improve the regulatory process and make the most effective use of its resources, the Financial Services Commission of Ontario (FSCO) is committed to adopting a risk-based approach for the supervision of pension plans. The goal is to ensure that the interests of pension plan members are duly protected. As an extension of its existing monitoring of pension plan funding, FSCO implemented the risk-based monitoring of pension fund investments in 2006.

The investment of pension assets has a significant impact on pension solvency. In view of the growing needs and similar regulatory practices in other jurisdictions in Canada and abroad, FSCO developed a risk-based pension investment monitoring program that includes an Investment Information Summary (IIS) form. The risk-based investment monitoring model has proven to be a useful tool for identifying such irregularities as significant breaches of investment regulations, unusual investment under-performance and serious asset-liability mismatch.

The IIS form is supplementary to the financial statements required under section 76 of Regulation 909, and has been approved for use under section 113.2 of the *Pension Benefits Act* by the Superintendent of Financial Services. The [Investment Information Summary- Form 8](#) is required to be filed by all defined benefit pension plans registered with FSCO, [except designated plans](#), within six months after each fiscal year end of the plan.

The information included in a pension plan's IIS form is used in conjunction with information in the other filings made on behalf of the pension plan. The fact that a plan has been flagged by the automated assessment process is not a judgment on FSCO's part as to how well the investments of the plan's assets are being managed or whether they are being invested prudently. Rather, flagged plans will simply have been identified as warranting a further review, which may or may not result in any follow-up action being taken by FSCO. If any non-compliance with investment regulations and proper standards is identified through the risk-based monitoring, FSCO will follow up on the non-compliance with the plan administrator.

FSCO believes that the implementation of the risk-based investment monitoring program progressively raises awareness of the effect of pension fund investments on pension plan solvency, brings investment management deficiencies to the attention of plan administrators and encourages adoption of prevailing industry best practices. The continuous improvement in pension investment management resulting from this program will help enhance the long term financial health of pension plans in Ontario.

## Previous Investment Monitoring Information

- [Update on FSCO Risk-Based Pension Investment Monitoring Model](#)
- [Consultation on Proposed FSCO Risk-based Pension Investment Monitoring Model - Financial Services Commission of Ontario](#)
- [Consultation Paper - A Proposed Risk-Based Investment Monitoring Model for Supervising Defined Benefit Pension Plans - July 2004](#)



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## Consultation on Proposed FSCO Risk-based Pension Investment Monitoring Model

Dear pension stakeholder:

On behalf of the Financial Services Commission of Ontario (FSCO), I am pleased to announce the release of a consultation paper entitled "[A Proposed Risk-Based Investment Monitoring Model For Supervising Defined Benefit Pension Plans](#)" for review and comment by pension stakeholders.

To improve the regulatory process and make the most effective use of its resources, FSCO is committed to adopting a risk-based approach for the supervision of pension plans. The goal is to reduce the risk that members of a pension plan will not receive the benefits promised. As an initial step, FSCO developed and implemented a risk-based monitoring program in 2000 that focussed on the funding of defined benefit pension plans.

The equity market downturn since mid-2000 and the decline in long term interest rates have raised concerns about the financial health of employment-based pension plans and the security of retirement savings in general. Besides pension plan contributions, pension fund investment returns can have a significant impact on the funded status of pension plans. Accordingly, FSCO believes it should extend its risk-based approach and complement its existing monitoring of pension plan funding with the monitoring of pension fund investment activity.

In November 2002, FSCO established a project team to develop a risk-based pension investment monitoring program. The primary objective of this program would be to promote strong governance with respect to pension fund investments so as to enhance the benefit security for pension plan members. Based on its research and study, the team has proposed an investment monitoring model that emulates the 3-stage selective review process that has already been implemented by FSCO for monitoring the funding of defined benefit pension plans.

The consultation paper presents the key features of the proposed investment monitoring model. FSCO expects to implement a pension fund investment monitoring program for filings made in respect of 2004 plan year ends.

FSCO welcomes the comments, suggestions and ideas of pension stakeholders regarding the investment monitoring model proposed in the consultation paper. In order to help refine the proposed Investment Information Summary (IIS) form and preliminary risk assessment criteria found, respectively, in Appendixes B and C of the paper, FSCO also invites pension plans to fill out and submit sample IIS forms to FSCO (which can be done on an anonymous basis if the plan so desires).

The paper can also be found on FSCO's website at [www.fSCO.gov.on.ca](http://www.fSCO.gov.on.ca). Written submissions and completed sample IIS forms should be forwarded **by August 30, 2004** to:

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Please note that all submissions received are subject to the access and privacy provisions of the *Freedom of Information and Protection of Privacy Act*. If for any reason you feel that your comments should not be shared with other parties, please indicate this in your submission.

We look forward to receiving your submissions. If, in the meantime, you wish to obtain more information about this project, please contact Mr. Ou at the numbers listed above.

Sincerely,

K. David Gordon  
Deputy Superintendent, Pensions