

# CAPSA Pension Plan Governance Guidelines and Self-Assessment Questionnaire

More than two years have passed since the Canadian Association of Pension Supervisory Authorities (CAPSA) released its draft CAPSA Pension Governance Guideline and the draft CAPSA Pension Governance Implementation Tool. During the intervening time CAPSA's Pension Plan Governance Committee, members of CAPSA and an industry task force have taken the 19 submissions received on the initial draft Guideline and Implementation Tool, and worked to improve the document.

CAPSA identified a number of areas where the industry indicated improvements were necessary, as follows:

- Clarification of the legal status of the CAPSA Guideline;
- Distinction between pension plan governance and corporate governance;
- Implementation of the Guideline for different types and sizes of pension plans;
- Length and repetition in the Guideline;
- The use of the term "governing body";
- Fiduciary duties of pension plan advisors;
- Utility of the Implementation Tool;
- Roles and responsibilities of pension plan members;
- Plan sponsor as a beneficiary.

Reviewing the new draft CAPSA Pension Plan Governance Guidelines and Self-Assessment Questionnaire released on July 18, 2003<sup>1</sup>, it does appear that CAPSA has addressed most, if not all, of the areas that had been highlighted as concerns<sup>2</sup>. The document, however, is technically still in draft. More "fine-tuning" changes are expected. CAPSA intends to "road-test" the Guidelines and Questionnaire in the fall with a number of volunteer companies. This will help CAPSA determine if plan sponsors need additional guidance in completing the Self-Assessment Questionnaire. Substantive changes in the Principles and Guidelines at this stage, however, are not anticipated.

We recommend that plan sponsors take this opportunity to become familiar with the draft Guidelines and Self-Assessment Questionnaire, if you haven't already. A high level review of current governance structures and processes against the draft CAPSA Guidelines could be beneficial, so that you have a better understanding of what improvements the regulators may be expecting of you in respect of plan governance in the near future. Keep in mind, however, that although the Guidelines are "best practices" and they are "voluntary", they are also intended to help you meet your existing governance responsibilities – responsibilities that have existed for years, some of them since the plan was established!

The focus of the regulators on pension governance has developed over many years and will continue to do so. We believe that plan sponsors will also need to start thinking of their governance efforts as an ongoing initiative. Good governance of most pension arrangements isn't likely to be quickly and easily achieved unless some effort in that area has already been made. Principle #11 of the CAPSA Pension Plan Governance Guidelines indicates that plan administrators should conduct a regular review of their plan governance. The Self-Assessment Questionnaire specifies that an annual completion of the questionnaire is recommended and the Guidelines state, "After each review, the plan administrator should modify the governance structure and the policies and practices, as required, to enhance effectiveness".

It is possible that the CAPSA Guidelines could be finalized in as little as 6 months. When you commence a full governance review of your plan against the Guidelines, we recommend a practical approach. Identify your most urgent governance challenges, the less urgent and the least urgent. Then develop a reasonable plan of attack. Keep a written record of all the actions and decisions you take – start a governance binder. If it could be helpful, in terms of motivation and providing an opportunity to get extra assistance with implementing the principles, you may want to consider volunteering to test drive the principles in CAPSA's fall road test. Let us know if we can help.

<sup>1</sup> Note that the name of the document has changed in several ways.

<sup>2</sup> Some of you may have seen a March, 2003, version of the CAPSA Pension Plan Governance Guideline. The March draft was just a stepping stone in the approval process and was never formally released to the public. The current July draft is stated to be a "plain language" version of the March document.

*July 18, 2003*