October 13, 2022

CAPSA Secretariat *via email*
capsa-acor@fsrao.ca

To Whom it May Concern:

Subject: Submission to consultation on risk management guidelines

This letter is in response to the public consultation on CAPSA's proposed approach to a risk management guideline and the following draft CAPSA guidelines:

- Leverage and the Effective Management of Associated Risks
- Environmental, Social and Governance Considerations in Pension Plan Management
- Cyber Risk for Pension Plans

This submission is made on behalf of the following pension plans:

Name	Province
Municipal Pension Plan	British Columbia
Public Service Pension Plan	
Teachers' Pension Plan	
College Pension Plan	
Local Authorities Pension Plan (LAPP)	Alberta
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)	Saskatchewan
Saskatchewan Teachers' Retirement Plan	
Colleges of Applied Arts and Technology (CAAT) Pension Plan	Ontario
Provident10	Newfoundland & Labrador

We strongly support CAPSA's work to support pension plan administrators in meeting their fiduciary duty and help enhance the protection provided to pension plan members across Canada. Collectively, our plans hold more than $266 billion in assets on behalf of over 1.17 million members and as large public sector pension plan providers, we strive to be industry leaders and effective participants in the pension industry.

We encourage CAPSA to develop an inclusive Risk Management Guideline containing subsections or appendices on key risk topics[1]. Our rationale is that although each risk topic may include unique strategies, risks, and opportunities, each is optimized within the context of a broader enterprise risk management framework. What we believe matters most is that an approachable, relevant guideline is made available to all plan administrators which facilitates an understanding of, and discussion about, risk management.

To ensure the proposed Risk Management Guideline (and its key risk subsections) provide the greatest benefit for all plan administrators, we suggest it have the following characteristics:

[1] Key risk topics would include, but not limited to, ESG, cyber risk, and leverage.

- Be principles-based to avoid being too prescriptive, ensure it is relevant to pension plans of all sizes and types, and to align with CAPSA's typical principles-based approach.
- Be capable of being right sized by individual plans.
- Emphasizes the importance of identifying roles and responsibilities, clearly documenting risk processes, and conducting regular reviews of the same.
- Includes specific examples only for the purpose of illustrating how organizations commonly approach and manage risks. Examples should be applicable to as many plan types and sizes as possible.
- Includes information regarding the reasonable and prudent supervision of third parties to which the responsibility for managing one or more risks has been delegated (e.g., what does it mean to "reasonably and prudently supervise" a delegate?)
- Cross-references other relevant CAPSA guidelines for the purpose of avoiding duplication, misinterpretation, and confusion.
- Recognizes not all plans have the same level of control over the same risks given the variety of different governance models. For example, sponsor risks are not necessarily within the control of the plan administrator and therefore it is not the administrator's risk to manage; it is an external threat to monitor.
- Includes a glossary of key risk terms (e.g., magnitude/impact, likelihood/probability, trend, etc.)

In addition, we recommend the proposed Risk Management Guideline include references to some of the basic principles of enterprise risk management (ERM), including the following:

- It is not possible to identify and respond to all risks, therefore plan administrators should manage risks that may have significant impact on the plan. Focus on what matters most – principal /material risks.
- Principal / material risks should be considered those which threaten achievement of a plan administrator's primary mandate (e.g., to provide a pension) and key strategic objectives.
- The objective of managing risk is not to eliminate a risk –risks should be managed to an acceptable level to manage a pension plan effectively. For this reason, if the risks are significantly below the acceptable level, effective risk management may mean the removal of a control; it is not always about adding controls.
- ERM enhances the likelihood of meeting strategic objectives and should therefore be integrated into an organization's governance framework and decision making, and into the structure, operations, and processes of an organization.
- A risk that is projected to have a significant impact to achieving objectives and is more likely than not to occur (e.g., probable) will generally require greater attention than a risk that is highly unlikely to occur or would have a minimal impact.
- The dynamic and variable nature of culture should be considered through the risk management process.

Additional commentary on the draft guidelines is included as an attachment to this letter. However, we do not provide specific commentary on the appendices to the draft Leverage Guideline as we suggest CAPSA exclude both and adopt a more principled-based approach. We believe that the appendices, as currently drafted, include a level of detail that is excessive and, at times, confusing, for the average administrator.

We appreciate the opportunity to comment on the proposed approach to a Risk Management Guideline and the three draft guidelines. If you have any questions about this submission, please do not hesitate to contact us.

Sincerely,

Hilary Brown, Chair
Municipal Pension Board of Trustees

Tom Vincent, Chair
Public Service Pension Board of Trustees

Reg Bawa, Chair
Teachers' Pension Board of Trustees

Geraldine Hutchins, Chair
College Pension Board of Trustees

Chris Brown, President & CEO
Local Authorities Pension Plan (LAPP)

Alison McKay, CEO
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)

Troy Milnthorp, Senior Managing Director
Saskatchewan Teachers' Retirement Plan

Evan Howard, Chief Legal and Regulatory Affairs Officer
Colleges of Applied Arts and Technology (CAAT) Pension Plan

Chuck Bruce, CEO
Provident10

College Pension Plan
Municipal Pension Plan
Public Service Pension Plan
Teachers' Pension Plan

ATTACHMENT – SPECIFIC FEEDBACK ON DRAFT CAPSA GUIDELINES

<table>
<tr><th>Guideline</th><th>Commentary</th></tr>
<tr><td>Leverage and Effective Management of Associated Risks</td><td>
<u>Main document</u>

The document provides important and much needed guidance for pension administrators as to how to address the use of leverage within investment funds of the pension plans. The draft has many strengths, which include well defined Context, Objectives, Types of Leverage, Risk Guidelines and Controls and Stress Testing and Scenario Analysis (pages 1 – 15).
Depending on circumstances, the use of leverage can increase risk in a pension plan and/or mitigate risk. If used, it should be integrated into the plan’s investment management/risk framework.
Depending on the governance structure and the definition of the plan administrator, for plans executing via several external managers, it is important to understand the leverage level within each managers' portfolios. If a plan has an external investment management provider, for instance, and outsourced CIO or a dedicated investment organization, the plan administrator does not need to examine embedded leverage as the CIO does it on the plan's behalf.
Page 5:

Section 3.1 defines leverage inconsistently with market practice. We recommend changing the definition in the Guideline to be a “means of achieving economic exposure that is greater than the capital invested” to align with market practice and avoid potential confusion and conflict between this Guideline and existing regulatory guidance related to the use of derivatives.
Section 2.2 lists factors considered when developing policies. We suggest adding the objective in use of leverage to the list of factors considered when developing policies (e.g., increasing diversification, liability driven investing, etc.).

Page 10:

we suggest moving “Performance measurement risk” under the “operational risk” section.
section 5, bullet #4: we think the sentence is missing some wording: “ensuring reporting of same to those……”

Page 13:

Section 5.2: we are not sure the example mentioned in the last paragraph is relevant. To implement this example, pension plans using leverage would be required to prepare separate asset mixes, which is neither practical nor efficient. Most plans that employ leverage would find it difficult to identify their asset mix without the use of leverage.
Section 5.3: the first five bullet points of this section are very similar to section 5.1. We suggest removing them.

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<tr><th>Guideline</th><th>Commentary</th></tr>
<tr><td></td><td><u>Appendices</u>
We recommend Appendix A and Appendix B be removed from the guideline as the level of detail included is excessive for an average administrator and the motivation for inclusion of some examples is unclear. We encourage CAPSA to adopt a principled-based approach.</td></tr>
<tr><td>Environmental, Social and Governance Considerations in Pension Plan Management</td><td>
Given responsible investing is about taking material environmental, social and governance (ESG) considerations into account to better manage investment risk or to identify/enhance investment opportunities, it should be integrated into the plan’s governance, investment, and risk management frameworks.
Page 4:
Principle 1 of the guideline notes: “Pension plan administrators (either directly or through their delegates) should consider ESG characteristics that may have material relevance to the financial risk-return profile of the pension fund’s investments.” In addition to “considering” ESG characteristics, it would be valuable to include reference to administrators taking appropriate actions. We suggest Principle 1, on page 4, could be modified as follows: “Principle 1: Pension plan administrators (either directly or through their delegates) should consider ESG characteristics that may have material relevance to the financial risk-return profile of the pension fund’s investments and take appropriate action based on those considerations.”
Page 10:
Principle 3 could be enhanced by recommending disclosure about the pension funds investment and stewardship policies broadly, including in the SIPP. In addition, we recommend the Principle encourage administrators to request companies in which they invest and their investment managers to disclose their ESG-related policies. Principle 3 could be enhanced accordingly: “Principle 3: Pension plan administrators should disclose information about the pension fund’s investment and stewardship policies in relation to ESG considerations, including in their SIPP. Where appropriate, pension plan administrators should also provide reports on their ESG considerations and stewardship activities as well as request companies in which they invest, and their investment managers, to disclose their ESG-related policies.”
Climate issues are flagged in different parts of the guideline. We suggest additional structure be added to the document to improve the flow and additional Social and Governance examples be included to ensure the document appropriately represents all aspects of “ESG”.
We recommend including definitions for ‘green assets’, ‘transition finance taxonomies’, ‘ethical investing’ and ‘impact investing’.
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Guideline	Commentary
Cyber risk	• Cyber security is part of the broader discipline of information management and therefore we recommend it be integrated into the plan's governance, investment, and risk management frameworks. • There is no real guidance or specifics on cyber security certifications or associated standards compliance they would consider acceptable to mitigate the associated risks. We suggest CAPSA include something indicative as to what such certifications or standards might look like. • A principles-based would help avoid the guideline regularly requiring updating and would allow CAPSA to focus the industry on understanding cyber security as an evolving risk and ensure appropriate controls, attention, and mitigation strategies suitable to the size of the plan and/or the organization and its governance structure are in place.