

## **REVISED PRINCIPLES FOR INVESTMENT DISCLOSURE IN CAPITAL ACCUMULATION PLANS**

Today the Joint Forum of Financial Market Regulators (Joint Forum) are publishing the Revised Principles for Investment Disclosure in Capital Accumulation Plans (CAPs), developed by the Working Committee of the Joint Forum dealing with this issue. On April 27, 2001, the Joint Forum published a discussion paper entitled "Regulatory Principles for Capital Accumulation Plans" which proposed principles for the creation of a harmonized regulatory framework for CAPs, so that the degree of coverage for all employees in such plans is similar and that they have access to the same quantity of information on investments, regardless of the type of plan and the applicable legislative framework. More than forty submissions were received as a result of the public consultation and the revision of the proposed principles is intended to take these comments into account. The Joint Forum Working Committee is now working with an industry task force to develop detailed guidelines that will facilitate the implementation of the revised principles.

### ***Overriding Principles***

1. *It is not necessary for the revised principles to be based on fiduciary duties which CAP plan administrators or employers owe to members. Rather, the revised principles refer to "responsibilities" of the plan administrator or employer which may be statute, guideline or policy-based.*
2. *It is recognized that many CAP plan administrators or employers do not have the skill or expertise to fulfill their responsibilities under the revised principles. Plan administrators or employers may fulfill their responsibilities by prudently selecting and monitoring a third party provider to act on their behalf. Where there is a delegation of responsibilities to a third party provider, the plan administrator or employer should ensure that the roles and responsibilities of the plan administrator, employer and third party provider in respect of the CAP are carefully documented in a written agreement, and that all of the responsibilities set out in the revised principles are addressed in this written agreement; and*
3. *Information in respect of the CAP (e.g., any contract or disclosure between the plan administrator or employer and a third party service provider, any disclosure to members regarding the CAP) should be in plain and simple language, focus on quality of disclosure not quantity of information, be understandable to the average member, plan administrator or employer, and be delivered in an appropriate manner. Information may be disseminated in various formats, including electronic means, provided appropriate safeguards are in place and it reaches the target audience.*

### ***Specific Proposed Principles***

**(i) Plan Administrators' or Employers' Responsibilities Regarding the Establishment and Maintenance of a CAP**

*Plan administrators' or employers' responsibilities should specifically include the responsibility to:*

- 1. Select investment options for members which offer a diversified range of options with different risk and return characteristics;*
- 2. Prudently select, using all relevant knowledge and skill, the investment managers for each investment option;*
- 3. Prudently monitor the performance of the investment managers for each investment option against established standards and benchmarks, and take appropriate action where performance is unsatisfactory given the long-term objectives of the fund;*
- 4. Allow members reasonable opportunities to switch between investment options;*
- 5. Establish a policy which outlines the process for dealing with a member who does not make an investment choice, including any default option which may be applied; and*
- 6. Ensure records for the CAP and each investment option under the CAP are properly prepared and maintained, and prompt action is taken to correct any identifiable errors.*

**(ii) Plan Administrators' or Employers' Responsibilities Regarding Initial and Continuous Disclosure**

***Initial Disclosure***

*Plan administrators' or employers' responsibilities include an obligation to provide members and potential members with a summary of the CAP outlining its terms and provisions, and explaining the rights, responsibilities and risks of the plan administrator, employer and members under the CAP. The initial disclosure should include:*

- 1. An explanation of the nature of the CAP, and the rights, responsibilities and risks of the plan administrator, employer and members under the CAP;*
- 2. A description of the investment options available and administrative directions on how to make investment choices;*

3. *Information on transfer options, and any applicable transfer penalties or fees;*
4. *Standardized disclosure of all fees and expenses borne by members including any implicit and explicit management, investment, operating and record-keeping fees, audit and custodial fees, charges, commissions and penalties;*
5. *Details of fund performance, and a report on performance, against the established standards and benchmarks for each investment option;*
6. *The policy which outlines the process for dealing with a member who does not make an investment choice, including any default option which may be applied; and*
7. *Where there is additional plan-specific information available, directions on how the member may access this information.*

### **Continuous Disclosure**

*Continuous disclosure should include:*

8. *Annual statements containing information such as the total contributions in each members' account, share/unit value information for each member's account, interest and investment income earned, a listing of transactions in each member's account during the year and any associated fees, standardized disclosure of all fees and expenses borne by each member (see principle (ii) 4), share/unit value information for each investment option, and details on how to access other information on the CAP or the investment options;*
9. *Access to specific information on each investment option (see principle (ii) 2), transfer options (see principle (ii) 3), and reports on significant changes in investment options including members' rights or options in respect of the change;*
10. *Access to any existing financial statements for each investment option and any existing asset lists of the portfolio of each investment option; and*
11. *Reports on fund performance, which includes the information under principle (ii) 5 as well as an aggregate for all investment options selected, should be provided at least annually.*

### **(iii) Plan Administrators' or Employers' Responsibilities to provide Appropriate Investment Decision-Making Tools to CAP Members**

*Plan administrators' or employers' responsibilities should include the responsibility to take reasonable steps to ensure members are provided with:*

1. *The Initial and Continuous Disclosure outlined under principle (ii);*
2. *Appropriate educational tools to assist with making investment decisions; and*
3. (a) *A caution or recommendation that members ought to obtain independent investment advice from an individual with an appropriate level of proficiency, to assist with their investment decisions and financial planning needs; **OR***  
  
(b) *Access to independent investment advice upon request, from an individual with an appropriate level of proficiency, to assist with their investment decisions and financial planning needs.*

**(iv) Investment Rules**

*Each investment option should:*

1. *Comply with the investment rules applicable to IVICs if the fund is issued by an insurance company;*
2. *Comply with the investment rules under National Instrument 81-102 (Mutual Funds) if the fund is a mutual fund under securities law; **OR***
3. *Fall within a list of permissible investment options set out in the detailed guidelines.*