CAPSA/ACOR

Canadian Association of Pension Supervisory Authorities

Association canadienne des organismes de contrôle des régimes de retraite

SELF-ASSESSMENT QUESTIONNAIRE

ON

PRUDENT INVESTMENT PRACTICES

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INTRODUCTION

The self-assessment questionnaire on prudent investment practices is designed to help pension plan administrators review the investment practices of the pension funds for which they have responsibility. The intent of the questionnaire is to assist the plan administrator with topics to consider when thinking about its investment function and activities. The questionnaire allows a plan administrator to examine and assess the elements of its current pension fund investment practices in relation to good governance practices that are likely to satisfy the plan administrator's fiduciary responsibility to invest pension fund assets in accordance with legislative requirements that reflect the prudent person rule. The completion of this questionnaire is not a guarantee that the administrator has met the prudence standard or discharged all the broader legislative obligations. The administrator consults with appropriate professionals to identify its prudence and legislative obligations and to meet those obligations.

When administering and investing pension fund assets, the plan administrator must satisfy the requirements of the prudent person rule, or the requirements of a higher standard if imposed under applicable legislation. Satisfaction of the prudent person rule is assessed primarily by looking at processes rather than focusing too much on outcomes. The questionnaire consists of questions designed to examine the processes followed in administering and investing the assets of the pension fund. The completed questionnaire is intended to help the plan administrator identify areas of strength and areas for improvement in the processes being followed in administering and investing the pension fund assets, as measured against the prudent person requirements.

The investment function may be examined in terms of how the investment policy, investment strategy and investment operations are established, implemented, carried out, monitored, reviewed and changed. The plan administrator should regularly assess the investment activities of its pension fund. This questionnaire may be used to support the assessment. For the most part, prudence in carrying out investment activities will be demonstrated with reference to the processes followed. Regular review of the investment processes will help the plan administrator determine if it is fulfilling its fiduciary responsibilities, as well as other responsibilities. It will also help the plan administrator assess the effectiveness of its investment processes. After each review, the plan administrator should modify the pension fund's investment policies and processes, as necessary, to enhance their effectiveness.

The self-assessment questionnaire has broad application, and is intended to address all sizes and types of pension plans. The plan administrator should identify and respond to the questions that apply to the particular circumstances of its pension plan.

While many of the risks inherent in defined benefit and defined contribution plans are the same there are some key differences in the risks and who bears them. Plan administrators for defined contribution plans are encouraged to consider all the sections in this questionnaire, rather than limiting their assessment to section 8 Defined Contribution Pension Plans. Note that section 8 also applies to defined benefit plans with a defined contribution component.

1. PLAN ADMINISTRATOR ROLES AND RESPONSIBILITIES

The plan administrator, in carrying out its functions and responsibilities for administering and investing the pension fund, must apply the prudent person rule and other legislative requirements, as applicable. The plan administrator and its role must be readily identified within the overall governance structure of the pension plan. The plan administrator may delegate some or all of its investment related duties; however, the plan administrator always has ultimate responsibility for having these functions completed in accordance with the standard of conduct required of a prudent person, and other applicable legislative requirements.

The plan administrator and plan sponsor should be identified in the pension plan documents or the pension plan governance documents. The plan sponsor determines the design of the pension plan, as well as the level and nature of pension benefits. For single employer pension plans, the employer is typically the plan's sponsor but other arrangements are possible. To avoid confusion about whether a particular action or decision is being carried out as plan sponsor or plan administrator, the employer should clearly document responsibilities for each role. The employer is held to a fiduciary standard of care when acting as plan administrator.

Roles and Responsibilities	Comments/Reference/Actions
1. The roles and responsibilities of the plan sponsor and plan administrator (including the different roles of each in the administration and investment of the plan assets) are documented in the: • plan text • investment policy • governance policy • Statement of Investment Policies and Procedures (SIP&P) • other _____	
2. The plan administrator's fiduciary responsibility to administer and invest the pension plan assets prudently and in the best interests of the plan's beneficiaries is documented in the: • plan text • investment policy • governance policy • Statement of Investment Policies and Procedures (SIP&P) • other _____	
3. The plan administrator must assess whether it has the knowledge, skill, information, resources and expertise to fulfill its investment	

function internally. Identify the steps taken and the documentation supporting this assessment.	
4. The investments will be selected and managed by: • internal employees of the plan administrator • investment committee of the administrator • external investment managers (professionals that manage assets and investments for the benefit of the investor) • external consulting firms that provide investment advice • an insurance or trust company (invested in pooled funds, segregated funds offered by the insurance or trust company, or an insured contract offered by the insurance company) • a combination of _____ • other_____	
5. In the event the investment functions are to be carried out by the administrator internally, it will it be done by means of: • corporate officer(s) • employee(s) • committee(s) • other _____	
6. Identify how the written record of delegation(s) of the roles and responsibilities of the administrator as it relates to the administration and investment of the pension fund addresses the following: • the function that has been delegated • the authority of the delegate to sub-delegate • requirement to provide a copy of the delegation document to the delegate • the reporting requirement from the delegate(s) to the plan administrator both indirectly and directly • the requirement for delegates to document key decisions and provide reasons • a process for the review of compliance with the authorized delegation • a process for evaluating the performance of the delegate(s) • the requirement to monitor delegates on an ongoing basis	

2. RESPONSIBILITY FOR ESTABLISHING THE INVESTMENT POLICY

The plan administrator is responsible for establishing the investment policy for the pension fund in a way that demonstrates the application of prudence. Although all registered pension plans are required to have a Statement of Investment Policies & Procedures (SIP&P) based on legislative requirements, there is no standard format for the investment policy of the pension plan. Any reference to the investment policy/SIP&P in this questionnaire includes a Statement of Investment Policies and Goals (SIP&G). The format will vary depending on the complexity of pension plan arrangements, the specific governance structure of the pension plan, and the individual preferences of the parties involved in preparing the investment policy. If the plan administrator does not have the knowledge, skill, information, resources and expertise to develop, in whole or in part, the investment policy for the pension fund, the administrator should retain input from internal resources and/or external service providers with the requisite skill, knowledge, information, resources and expertise to assist in the development of the investment policy/SIP&P.

Responsibility for Establishing the Investment Policy	Comments/Reference/Actions
1. The plan administrator must assess whether it has the knowledge, skill, information, resources and expertise to develop the investment policy and to fulfill its investment function internally. Identify the steps and documentation which support this assessment.	
2. The SIP&P will be prepared and reviewed by: • internal employees of the plan administrator • investment committee • external investment managers (professionals that manage assets and investments for the benefit of the investor) • an insurance or trust company (invested in pooled funds, segregated funds offered by the insurance or trust company, or an insured contract offered by the insurance company) • external consultants • lawyers • a combination of _____ • other_____	
3. The investment policy is to be set out in: • a SIP&P based on legislative requirements • an expanded SIP&P with more elements than the legislative requirements	

• a broad investment policy which includes the SIP&P as one policy document in a group of investment policy documents • other_____	
4. If an external third party has been selected by the plan administrator to help prepare and review the investment policy/SIP&P, then the plan administrator must assess whether the external third party service provider has the skill, knowledge, information, resources and expertise to fulfill the delegated function(s). Identify the steps and documentation which support this assessment of the external third party service provider(s).	

3. INVESTMENT OBJECTIVES

The development of investment objectives is an identifiable step in the process by which the investment policy/SIP&P is developed. Some factors the plan administrator should consider when the investment objectives are developed or reviewed include the pension fund's retirement income objective, the characteristics of the pension fund's liabilities, the plan's demographics, and the acceptable degree of risk for the pension fund, the plan sponsor and plan beneficiaries.

Investment Objectives	Comments/Reference/Actions
1. Identify how the pension fund's investment objectives take into consideration: • the pension fund's retirement income objective, • the characteristics of the pension fund's liabilities, • the plan's demographics, • the acceptable degree of risk for the pension fund, the plan sponsor and plan beneficiaries, and • any funding policy	
2. In developing and reviewing the objectives, the plan administrator consults with: • the plan sponsor • the actuary • other _____	
3. The investment objectives are documented in: • the investment policy/SIP&P • the plan's governance documents • other _____	

4. RISK TOLERANCES

The identification of risks and implementation of risk management policies and practices is part of the process to develop and review the investment objectives and the investment policy/SIP&P. The investment objectives should be clearly written in order to communicate the plan administrator's investment philosophy to its investment managers and other third party service providers. The investment objectives may be stated in terms of an absolute or relative percentage return, as well as in terms of general goals such as capital preservation and capital appreciation.

Risk Tolerances	Comments/Reference/Actions
1. The key risks of the pension plan have been identified: • investment time horizon • liquidity needs • funding risk (document the plan sponsor's tolerance for volatility in funding requirements) • investment risk/return volatility • demographic risk • longevity risk • legislative/regulatory requirements risk • other _____	

2. The identification of risks and the implementation of risk management practices are an important part of how the investment strategy is implemented. The investment policy/SIP&P should be framed taking into consideration the following risks and their potential mitigation:
• market risk and its potential mitigation by
  ○ diversification by
  - asset class
  - management style (value/growth; passive/active)
  - foreign/domestic
  - correlation among asset classes/industry	

• interest rate risk and its potential mitigation by
  ○ diversification by
  -fixed and floating rate products
  -duration
  -laddering
 	
• foreign exchange rate risk and its potential mitigation by
  ○ derivative instruments to hedge exposure
  ○ diversifying instruments by country
  ○ limiting the pension fund's holdings of foreign securities
• credit risk and its potential mitigation by
  ○ considering debt ratings
  ○ credit exposure to more than one issuer
 	
• other _____	

5. CONTENT OF INVESTMENT POLICY/STATEMENT OF INVESTMENT POLICIES & PROCEDURES (SIP&P)

The specific content of the investment policy/SIP&P will vary depending on the jurisdiction in which the pension plan is registered as well as the investment objectives and risk tolerances of the pension plan as defined in section 3 Investment Objectives and section 4 Risk Tolerances. If the pension plan investments are subject to federal investment rules refer to the Office of the Superintendent of Financial Institutions of Canada's *Guideline for the Development of Investment Policies and Procedures for Federally Regulated Plans*, which identifies the elements an investment policy/SIP&P of a regulated pension plan, subject to federal investment rules, must address. Pension plans regulated by the Quebec pension regulator should consult the website of the Régie des Rentes du Québec and plans regulated by the New Brunswick regulator should consult the website of the New Brunswick Office of the Superintendent of Pensions.

Giving consideration to the investment objectives and risk tolerances of the plan, and financial market conditions, the plan administrator develops an investment policy/SIP&P. If the plan administrator uses a service provider to develop the investment policy/SIP&P, the administrator should ensure the advice received is reasonable. In developing the investment policy/SIP&P the plan administrator should consider the diversification of investments among different asset classes or types of investment, as well as within the asset classes or types of investment. The extent of investment return correlation among asset classes and types of investment should also be considered.

The asset allocation selected should be documented, and an asset allocation rebalancing policy should be developed and should be applied regularly, taking into consideration the overall rate of return expectations for the pension plan and the plan's risk tolerances. Benchmarks should also be selected to review plan performance. The rate of return expectations and pension fund performance measures should be documented in the investment policy/SIP&P.

Legislation governing the pension plan and pension plan investment may change over time, so there needs to be a process in place to ensure that the investment policy/SIP&P is updated and reviewed on a regular basis and includes any additional requirements as specified in that legislation. This section on the content of the investment policy/SIP&P is not an exhaustive list of the various aspects of an investment policy/SIP&P the plan administrator should consider.

Related Party Transactions and Conflicts of Interest

The plan administrator or delegate should establish specific criteria that define permitted related party transactions, how they will be managed, and communicate the process to affected parties. A conflicts of interest policy for the pension plan and pension fund should also be established which provides examples of the types of conflicts of interest that may arise. There needs to be a process that individuals with a conflict of interest should follow, as well as a process to address undisclosed conflicts of interest.

Investment Policy/ SIP&P	Comments/Reference/Actions
1. The investment policy/SIP&P is consistent with the investment objectives and takes into account: • the type of plan (defined benefit, defined contribution, multi-employer pension plan, jointly sponsored) • the nature of the benefit (career average benefit, flat benefit, defined contribution) • the nature of the plan's underlying liabilities and the major factors affecting them	

2. The investment policy/SIP&P includes:
• the plan's investment objectives
  ○ capital preservation
  ○ capital appreciation
  ○ funding risk/funding policy
• the plan's risk tolerances
• a stated period of review	

3. The legislative investment rules that apply to plan investments are: • federal • Quebec • New Brunswick • other _____	
4. The investment policy/SIP&P includes the elements required under the applicable legislative investment rules: • federal • Quebec • New Brunswick • other_____	

5. In addition to the applicable legislation and guidelines, the investment policy/SIP&P may also consider including elements on but not limited to: • the asset classes for investment • the weights assigned to each eligible asset class • the allowable allocation ranges based on the weights • the correlation between asset classes or types of investment considered • the specific securities or funds that may be purchased for the portfolio • the amount and the effect of management and administrative fees, transaction costs and custodial fees • benchmarks • rate of return expectations (including timeframe) and expected volatility • pension fund performance measures • investment review process • policy review process • criteria and process for permitted related party transactions • securities lending • borrowing • conflicts of interest policy • roles and responsibilities of delegates • criteria and process for monitoring delegates	

6. DELEGATION OF INVESTING ACTIVITIES FOR PENSION FUND ASSETS

Fund Holder

The plan administrator does not usually hold the assets of the pension fund. While this function is typically delegated to an external party, the plan administrator is ultimately responsible for adhering to the prudent person standard or any other higher standard required by applicable legislation. The plan administrator may retain one or more fund holders. Fund holders may be a trust company, a group of individual trustees, or an insurance company. The plan administrator should exercise independent judgment to determine whether the fund holder has the appropriate level of skill, knowledge and expertise to perform the delegated tasks. Where a fund holder has been retained, there must be a written fund holder agreement that sets out roles and responsibilities; establishes the level of compensation; ensures that amount is reasonable; determines legal terms and conditions, including an appropriate standard of care; and establishes criteria for assessing the services provided.

The fund holder may provide asset custody services for the pension fund. The fund holder or plan administrator may retain a custodian or multiple custodians. A custodian is defined as a financial institution that holds some or all of the pension fund's assets under an agreement with the fund holder. The written custodian agreement with each custodian includes the level of compensation; ensures that amount is reasonable; sets out roles and responsibilities; determines legal terms and conditions, including an appropriate standard of care; and establishes criteria for assessing the service provided. The pension fund's custodian should be provided with a summary of the required plan contributions and any subsequent significant revisions. Contributions to the plan should be invested as soon as possible and there should be controls in place to ensure the timely payment of contributions. Once external parties have been selected to hold the pension fund assets it is a matter of good governance for the plan administrator to monitor and review the services provided by these parties.

For further information on fund holders please review *CAPSA Guideline No. 5 on Fund Holder Arrangements*.

Investment Management

Investment selection consistent with the plan's investment policy/SIP&P may be performed by an internal party of the administrator or may be delegated to an external party. The plan administrator is ultimately responsible for adhering to the prudent person standard in the investment of its assets in either case.

If the pension fund invests in funds within which the investment manager exercises discretionary authority then the process for selecting such investments should include a review of the considerations that would apply if the investment manager were retained directly by the pension fund. Processes should be in place regarding custody and reporting of the underlying investments and there needs to be

sufficient information available on an ongoing basis to ensure compliance by the discretionary manager with legislation and the investment policy/SIP&P, and to be able to assess the risks and performance for the underlying investments.

Delegation of Investment Activities for Pension Fund Assets	Comments/Reference/Actions
1. Identify who provides asset custody services for the pension fund. Was the custodian retained by the: • fund holder • plan administrator • other _____	
2. Where the plan administrator has delegated fund holder or custodian functions identify who has been delegated/selected to: • review and monitor the delegation(s), and • ensure regular reports are provided to the administrator from the delegates	
3. What processes have been established to monitor services provided by the fund holder and custodian?	
4. Identify who has the duty to: • monitor delegates to ensure compliance with regulatory requirements • address non compliance situations and poor results in performing delegated tasks • ensure investment manager(s) reports confirm that the investments comply with the investment policy/SIP&P and legislation • ensure and report to the administrator that the internal delegations who select and manage the investments receive a copy of the investment policy/SIP&P and other investment documents • ensure the review process is being followed and that written agreements with the fund holder and/or custodian are being reviewed regularly • select investments consistent with the investment policy	

• ensure the administrator receives regular reports from the investment managers and that the timing and method of reporting comply with dates specified in the investment manager agreements • take action when performance measurement results do not meet the expected targets over a stated period of time • ensure the documented process to add new investment managers and remove existing investment managers is followed • address plan beneficiary and other interested parties' questions and concerns on investment decisions	
5. Identify how the formal written procedure for the selection of investment managers includes: • the criteria for the selection of the investment manager • performance targets and benchmarks • reporting requirements • how investment managers are replaced • fees and compensation • an assessment of the investment management agreement (including a boilerplate agreement) • other requirements _____	
6. Identify how the investment manager agreement(s) contain: • performance targets and benchmarks • reporting requirements • compensation • confirmation that investments comply with legislative requirements and the investment policy/SIP&P • other_____	
7. Identify who has been delegated the task of ensuring the investment policy/SIP&P is being amended to comply with plan documents and/or changes in legislation.	

7. MONITORING AND REVIEW

Although the plan administrator may have delegated the various investment functions, the plan administrator is ultimately responsible for the application of prudence to investment and should monitor and review the investment activities on a regular basis.

Once the investment policy/SIP&P has been established and implemented the policy should be monitored and reviewed on a regular basis. There is a legislative requirement that the SIP&P must be reviewed at least annually (except in New Brunswick where the review is to be conducted every three years, and in Quebec the specific review period is not defined but is to be stated in the investment policy/SIP&P).

Monitoring and Review	Comments/Reference/Actions
1. Identify the process in place to monitor and review: • the plan's investment objectives and risk tolerances • the investment policy/SIP&P • the action taken when the investment objectives and risk tolerances of the plan have changed	
2. Identify the delegates responsible for review and monitoring: • the roles and responsibilities of the plan administrator, plan sponsor and delegates • investment objectives • risk tolerances • the investment processes • related party and conflict of interest policies and procedures • the investment manager(s) agreements • the investment policy/SIP&P	
3. Describe the process to monitor investments which identifies the requirements to: • review the plan's investment policy/SIP&P to ensure the plan's investment objectives and risk tolerances are reflected • ensure the investments comply with the investment policy/SIP&P • ensure the investments meet legislative requirements • set out the steps to be taken to bring investments that do not comply into compliance with the investment policy/SIP&P	

and legislative requirements • set out the requirements to review for conflicts of interest and related party transactions • set out the requirements for reporting on the monitoring of investments • identify changes in investment practices that will be undertaken as a result of the monitoring and review • other _____	
4. With respect to delegations, the processes to monitor and review investment activities should establish clear responsibilities to: • monitor the investment activities of the parties who select and manage the investments • ensure the parties who select and manage the investments maintain compliance with the investment policy/SIP&P for the investments they have responsibility for • ensure the overall fund is in compliance with the investment policy/SIP&P and legislation • identify the means used for selecting the benchmark(s) including the rationale employed to determine the benchmarks support the interests of plan beneficiaries • monitor and review the return on the plan's assets measured against the benchmark(s) • monitor and review the fees and expenses charged • monitor the pension fund overall performance against the objectives documented in the investment policy/SIP&P • take action when performance measurement results do not meet the expected targets over a stated period of time • evaluate the performance of investment managers regularly against benchmark criteria set out in the investment policy/SIP&P • other _____	
5. Identify any shortfalls in the performance of the investment manager addressed since the last review. Identify the actions taken.	
6. Identify any conflicts of interest and related party transactions identified since the last review, and the actions taken by: • the plan administrator • delegates • other _____	

8. DEFINED CONTRIBUTION PENSION PLANS

For defined contribution pension plans, how the administrator can demonstrate prudence in its investment practices depends on whether the administrator makes the investment decisions for the plan and has wholly selected the investments without any direction from the plan members and beneficiaries, or whether the plan offers investment options from which the beneficiary makes his own investment decisions. When the investment decisions are made solely by the administrator, the considerations discussed in the previous seven sections of this questionnaire are the most relevant.

Where a defined contribution plan allows plan members and beneficiaries to choose investments from among a number of investment options offered by the administrator, the exercise of prudence can be demonstrated primarily through the process the administrator uses to determine what investment options are offered, and the support given to plan members and beneficiaries to make their investment decisions, including the information and decision-making tools provided.

This section of the questionnaire focuses on how the administrator of a defined contribution plan that offers investment options can demonstrate prudence with respect to the administrator's investment practices and responsibilities. These considerations also apply to defined benefit plans with a defined contribution component.

While many of the risks inherent in defined contribution plans are the same as the risks for defined benefit plans, there are some key differences, both in the risks themselves and in who bears the risk. Some risk areas specific to defined contribution plans may include:

- beneficiary decision making,
- provision of information to plan members and beneficiaries,
- number of investment options offered, and
- fees (investment and administration).

Areas to pay attention to are:

- the decision making tools provided to plan members and beneficiaries which can include: (refer to section 3.3 *CAPSA Guideline No. 3 for Capital Accumulation Plans*)
    - asset allocation models
    - retirement planning tools
    - calculators and projection tools to help plan members determine contribution levels and project future balances and estimates of retirement income; and,
    - investor profile questionnaires
- adequate investment information,
- an appropriate set of investment options,
- an appropriate default option, and
- information on payout options.

The investments of the assets of a defined contribution pension plan are subject to the legislated standard of care requirements which may be over and above the requirements for other types of capital accumulation plans. The legislative requirements for each jurisdiction may impact how defined

contribution plans are regulated and the investment options that are made available to plan members and beneficiaries.

Where the administrator of a plan offers investment options to the plan members and beneficiaries, the administrator must exercise prudence in the selection of the default option(s). The administrator can demonstrate prudence by ensuring that when selecting the default option(s) the administrator has considered such factors as:

- the demographics and levels of investment knowledge of plan members and beneficiaries,
- the general suitability of the default option(s) for retirement savings purposes,
- diversification of risk, and
- the reasonableness of fees.

Defined Contribution Plans	Comments/Reference/Actions
1. In selecting the investment options that are offered to plan members and beneficiaries the administrator should consider the: • number of investment options to be offered • plan member and beneficiary levels of investment knowledge and demographics • ability of plan members and beneficiaries to construct an investment portfolio from the options offered that is suitable for retirement savings • range of options provided in terms of their level and type of risk, management style, asset class, domestic and foreign exposure and historical performance • liquidity of the investment option • fees associated with each investment option	
2. Identify how the plan administrator obtained advice on the selection of investment options to be provided to plan members and beneficiaries: • internally • from an external consultant • from a financial institution providing investment options • other_____	
3. Identify the steps taken to ensure that the default option provided is generally well suited to the retirement savings needs of plan members and beneficiaries.	

4. Identify the steps taken to ensure the decision making tools provided are generally well suited to the plan members and beneficiaries and are being used by the plan members and beneficiaries. Refer to Section 3.1 of the *CAPSA Guideline No. 3 for Capital Accumulation Plans.*	
5. Identify the procedures in place to: • monitor the number or percentage of plan members and beneficiaries, or of plan assets invested in the default investment option • monitor how often plan members and beneficiaries review and adjust their investments • encourage plan members and beneficiaries to review and rebalance their investments • monitor investment performance	
6. Identify the steps taken to ensure that the plan members and beneficiaries are provided with sufficient detail about the investment options so that they can make informed decisions. This could include ensuring that for each investment option offered the plan member or beneficiary is provided with : • name of the investment option • names of all investment management companies responsible for the management of the investment option • the investment objective of the investment option • the types of investments that the investment option may hold • the risks associated with investing in the investment option • the historical investment performance of the investment options • where more information about the investment options holdings and other disclosure can be obtained	
7. Identify the procedures in place to communicate information to plan members and beneficiaries concerning: • plan terms (e.g. vesting) • how to choose investments, how choices can be changed and how to transfer between investments	

• the policy regarding the failure to make an investment choice • fees charged to plan member and beneficiary accounts • administrative support available • investment trading restrictions (black out periods) • options available on termination of plan membership including portability options (purchase of an annuity, transfer to a LIF/LIRA, LIF type payments from the pension plan) • other _____	
8. Identify the procedures in place to deal with plan members and beneficiaries' questions or complaints.	