



SECTION:	Investment Guidance Notes
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TITLE:	Statements of Investment Policies and Procedures (SIPPs) for Member Directed Defined Contribution Plans
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Note: Where this guidance note conflicts with the Financial Services Commission of Ontario Act, 1997, S.O. 1997, c. 28 (FSCO Act), Pension Benefits Act, R.S.O. 1990, c. P.8 (PBA) or Regulation 909, R.R.O. 1990 (Regulation), the FSCO Act, PBA or Regulation govern.

*Note: The electronic version of this guidance note, including direct access to all linked references, is available on FSCO's website at www.fSCO.gov.on.ca. All pension policies and guidance notes can be accessed from the **Pensions** section of the website through the **Pension Policies** link.*

1.0 Purpose

As a result of recent amendments to the Federal *Pension Benefits Standards Regulations, 1985* (PBSR) and to Regulation 909 (the Regulation) under the *Pension Benefits Act* (PBA), the requirements have changed for the statement of investment policies and procedures (SIPP) for plans where the members direct the investment of the assets in their accounts (i.e., member directed defined contribution (DC) plans and, combination benefit or hybrid plans with member directed accounts).

This guidance note sets out FSCO's expectations regarding the content of SIPPs for these types of plans in light of these changes; it does not apply to defined benefit (DB) plans, or to DC plans where the administrator directs the investment of the assets.

2.0 Background

2.1 SIPPs and the PBA

Under section 78(1) of the Regulation, the administrator of a pension plan is required to establish a SIPP for the plan that meets the requirements of the federal investment regulations as modified in sections 47.8 and 79 of the Regulation. A SIPP is a document that contains investment policies and procedures in respect of a plan's portfolio of investments and loans.

2.2 Federal Investment Regulations

The federal investment regulations (FIR) are defined in section 66 of the Regulation as sections 6, 7, 7.1 and 7.2 and Schedule III to the Federal PBSR made under the *Pension Benefits Standards Act, 1985 (Canada)* as they may be amended from time to time. The FIR are incorporated by reference in sections 78 and 79 of the Regulation. The Regulation also modifies the application of the FIR with respect to Ontario plans.

Under the amendments to section 7.1 of the PBSR, which came into force on April 1, 2015, the SIPP established for a federally registered pension plan does not need to address the assets of a “member choice account”, as defined in the PBSR. A member choice account is essentially an account under a defined contribution (DC) plan or DC provision of a combination benefit or hybrid plan for which the member or other beneficiary is permitted to make the investment choices.

The Federal Government has instead introduced a series of disclosure requirements concerning investment options offered under the member choice accounts. These new disclosure requirements, however, will not apply to Ontario pension plans as they are not incorporated by reference into the PBA.

3.0 PBA Requirement for SIPPs for Member Directed DC Plans and Content Requirements

The Ontario requirement for the establishment of a SIPP is not contained in the FIR, but directly in section 78 of the Regulation; therefore, member directed DC plans are still required to establish a SIPP and the SIPP for other plans with member directed accounts must still address the investment of such accounts. However, the content requirements set out in section 7.1 of the PBSR no longer apply with respect to the investment of member directed accounts.

The SIPP for these plans must be consistent with the applicable portions of the FIR as modified in sections 47.8 and 79 of the Regulation. Where there is a conflict between the SIPP and the FIR as modified by sections 47.8 and 79 of the Regulation, the FIR as modified takes precedence.¹ The administrator should amend the SIPP to remove the conflict.

The SIPP must also include information as to whether environmental, social, and governance (ESG) factors are incorporated into the plan’s investment policies and procedures, and if so, how those factors are incorporated. Reference should be made to FSCO’s Investment Guidance Note #004: *Environmental, Social and Governance (ESG) Factors* for more information.

As the SIPP contains investment policies and procedures in respect of the plan’s portfolio of investments and loans, FSCO expects that the SIPP for the DC plan/provision will also contain the following information:

1. *The investment philosophy statement.* This includes investment principles, beliefs, and assumptions that help shape the DC plan/provision’s investment program, such as the administrator’s views on active and passive management, or the approximate number of

¹ Section 78 of the Regulation requires the SIPP to meet the requirements of the FIR as modified in sections 47.8 and 79 of the Regulation. Section 79 of the Regulation requires the assets of every pension plan to be invested in accordance with the FIR despite the provisions of the plan or an instrument governing the plan. Effective January 1, 2016, section 79 of the Regulation requires the assets of the plan to be invested in accordance with the FIR, as modified, and with the SIPP.

investment options to be made available to plan members. This also includes indicating in general terms the type of investment products (e.g., mutual funds, target date funds, life cycle funds, government securities, etc.) that are appropriate given the stated investment principles, beliefs and assumptions.

2. *Permitted asset classes from which investment funds can be selected*, which should reflect the principles, beliefs, and assumptions set out in the investment philosophy statement.
3. *The default investment option for member accounts where no selection is made, and an explanation as to why it is appropriate given the plan membership*. For example, relevant factors in choosing a default option may include the interest rate environment and the usual length of time prior to the receipt of investment directions.
4. *The process for monitoring service providers*. The policy should specify, in general terms, the frequency and type of reporting that the administrator will require from its DC-related service providers, such as the record keeper, third party administrator, and custodian, where applicable. (Investment managers are discussed separately in item 5 below). For example, the policy may require quarterly reporting from the record keeper on fund performance, fund allocation, web-site usage, and other service-level statistics.
5. *The process for selecting, monitoring, and terminating investment managers and funds*. This may include internal authorizations, processes, and criteria to be followed in the selection, monitoring, and termination of investment managers and funds, as appropriate. This should include identifying the party responsible for assessing compliance by investment funds with applicable SIPP policies and procedures, and the frequency of assessing and reporting on compliance. In determining appropriate criteria to be considered in selecting investment options, Administrators may wish to refer to *CAPSA Guideline #3: Guidelines for Capital Accumulation Plans* (May 2004).
6. *Guidance concerning plan expenses and investment fees related to the DC plan/provision*. This should include indicating which expenses and fees will be paid by the employer and which will be borne by plan members; expectations or limits on total plan expenses and fees; and guidelines for monitoring expenses and fees.
7. *Related party transactions* –the policies and procedures pertaining to related party transactions permitted under section 17 of Schedule III to the PBSR and the criteria to be used to establish whether a transaction is nominal or immaterial to the plan under the related party rules.
8. *Information guidelines for plan members on investment options*. The policy should identify at a high level the guidelines on information to be provided to plan members concerning their investment options under the plan. Administrators may wish to refer to CAPSA Guidelines No. 3 and 8, and the new regulations on member choice accounts prescribed in section 7.3 of the PBSR.²

The SIPP does not necessarily need to address these items in the same order as they are presented above.

² Section 7.3 of the PBSR is not incorporated by reference into the Regulation, and, therefore, Ontario pension plans are not required to comply with this subsection. The requirements set out in section 7.3 may nevertheless serve as a useful guideline for administrators.

4.0 Other Important SIPP Requirements

The SIPP for a member directed DC plan (or which pertain to member directed accounts) is also subject to other regulatory requirements under the PBA, including those described below. This is meant as a summary only, and administrators should refer to the relevant sections of the PBA and the Regulation directly, and relevant FSCO policies for further information:

- Starting in 2016, administrators will need to file the SIPP with FSCO. The filing is to be done through the Pension Services Portal. (See section 78 of the Regulation.)
- Starting on January 1, 2016, the assets of the plan must be invested in accordance with the SIPP. Plan assets must also continue to be invested in accordance with the FIR, as modified by the Regulation. (See section 79(1) of the Regulation)
- Administrators must make their SIPPs available to plan members and other prescribed stakeholders upon request. (See section 29 of the PBA and section 45 of the Regulation)
- Effective July 1, 2016, administrators must include prescribed statements about the SIPP in annual statements to members, and in biennial statements to former and retired members, if applicable. (See sections 40, 40.1 and 40.2 of the Regulation.)

5.0 Assistance and Reference Materials

The SIPP is an integral plan document that addresses a wide range of technical topics including investments and funding, and which must meet regulatory requirements. As such, the preparation, review and revision of the SIPP will require a fairly high level of technical knowledge and expertise. If the administrator does not feel it possesses adequate knowledge and expertise, it has a fiduciary duty to seek external expert assistance in this regard.

In establishing or reviewing a SIPP, administrators and their advisors and consultants may wish to review the following materials for additional guidance and information:

- FSCO *Investment Guidance Note #002: Prudent Investment Practices for Derivatives*.
- FSCO *Investment Guidance Note #004: Environmental, Social and Governance (ESG) Factors*.
- CAPSA's *Guideline No. 3: Guidelines for Capital Accumulation Plans*, May 2004.
- CAPSA's *Guideline No. 6: Pension Plan Prudent Investment Practices Guideline and Self-Assessment Questionnaire on Prudent Investment Practices*, November 2011.
- CAPSA's *Guideline No. 8: Defined Contribution Plans Guideline*, March 2014.