



Chairman, President and
Chief Executive Officer

Cabinet de président
et chef de la direction

January 4, 2011

Hon. Tony Clement
Minister of Industry
235 Queen Street
Ottawa, Ontario
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Dear Minister:

Thank you for the opportunity to participate in the December 10 consultation you hosted regarding enhancing the protection of workers whose employers declare bankruptcy, while minimizing the economic impacts of so doing. The Canadian Chamber was represented by our Chief Economist, Tina Kremmidas, who was impressed by your openness and the quality of the discussion.

The Canadian Chamber and its members understand the imperatives that make the government feel it needs to take additional measures to protect workers' pensions when their employers declare bankruptcy. That said, there are approaches being discussed that, if adopted, would undermine Canada's bond markets and seriously impede employers' ability to access affordable capital. For some, their financial health and stability would be jeopardized. This would be most seriously felt by companies who are in a weak financial position and need access to affordable capital the most.

Throughout the discussions regarding protecting pensioners whose employers declare bankruptcy, financial markets experts - almost to a person - have warned of the crippling consequences to Canada's capital markets and the ability of companies to access affordable capital - of granting creditor protection to Defined Benefit pension plans. It concerns us - and our members - deeply that this option could still be under consideration.

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The best protection for employee pensions is financially-healthy employers. Measures that aim to protect pensions, but result in compromising the financial health of employers would be dangerous. They could result in eroding the financial status of otherwise healthy employers, tipping weak companies into bankruptcy, and eroding the retirement savings of the millions of Canadians whose plans include the corporate bonds of these corporations.

It is unfortunate that in much of the debate surrounding the Private Member's and Senate bills that propose measures to protect Defined Benefit pensions some key facts have been overshadowed. These are:

- Companies who sponsor Defined Benefit pensions have been funding their plans according to the rules in place at the time they were going concerns. The current unfunded liabilities of Defined Benefit plans are the result of the combined impact of the 2008 collapse in equity markets and the decline in long bond yields to levels not seen in more than 50 years, and
- New regulations that became effective with the passage of Bill C-9, *An Act to implement certain provisions of the budget tabled in Parliament on March 4, 2010 and other measures*, which received Royal Assent in July 2010, provide additional protections to Defined Benefit Pensions. As a result of these measures, Defined Benefit pension plan participants are better protected than ever before.

It is the view of the Canadian Chamber and our members that these new regulations should be allowed to take hold before other measures are considered. We also believe that the government has an opportunity to communicate these measures to key stakeholders to clarify the facts regarding Defined Benefit plans and their sponsors.

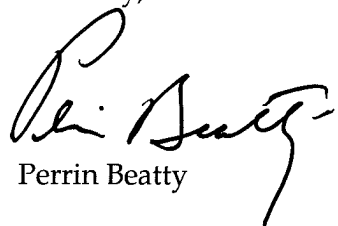
Should the government determine that additional measures to protect pensions are required, we encourage it to work with the provinces and territories to enact legislation that would permit the movement of the assets of pension plans, sponsored by companies that are facing bankruptcy and about to be wound up, to the Canada or Quebec Pension Plans for administration. This would provide plan members with the opportunity to regain some of their plans' solvency shortfalls, rather than facing the prospect of their plans' assets being frozen with no opportunity for growth.

Regarding protecting long-term disability benefit recipients, our members with self-administered plans have told us they would be prepared to provide full disclosure to their employees on the structure of their plans and the risks associated with them.

Providing creditor protection to Defined Benefit pensions and long-term disability benefits would protect one group of Canadians at the expense of a great many others and their employers, employers that would otherwise be able to secure the capital necessary to keep themselves – and their pension and disability benefits plans - financially whole. We encourage the government to look at other options.

Thank you for the opportunity to participate in the discussion of this very important issue. It is a subject that matters to millions of Canadians and their employers. I hope our comments have been helpful and I would be pleased to discuss them with you further.

Sincerely,



Perrin Beatty