

Ontario Government Posts Proposed Amendment To The 10% Rule For Consultation



The Ontario government has posted for public consultation a proposed exemption to the 10% rule which applies to investments of Ontario pension plans. Comments are due by February 18, 2014.

Background on the Pension Plan Investment Rules

In 2000, the Ontario government adopted the federal investment rules as part of a Canada-wide harmonization initiative. These rules include Schedule III to the Pension Benefits Standards Regulations, 1985 (Schedule III), which prescribes certain quantitative limits for pension plan investing. One of the limits is known as the “10% rule”.

The 10% rule limits the percentage of plan assets that can be invested in, or loaned to, any one company or group of related companies to 10% of the total book value of the plan assets. The purpose of the 10% rule is to promote diversification. There are a number of exceptions to the 10% rule, including investments in securities issued or fully guaranteed by the federal or provincial governments.

Announcement of the Proposed Change in the 2013 Ontario Economic Outlook

On November 7, 2013, the Ontario government presented its 2013 Ontario Economic Outlook and Fiscal Review. Among the changes announced in the Economic Outlook, was a proposal to amend the general regulation under the Ontario Pension Benefits Act to add an exception to the 10% rule. The proposed change is intended to address a concern that the 10% limit is preventing indexed plans from holding sufficient inflation-linked securities.

Announcement of a Public Consultation on the Proposed Amendment

On February 5, 2014, the Ontario government posted the proposed amendment to the 10% rule. The proposed amendment exempts from the 10% rule investments in securities issued and fully guaranteed by the U.S. government. As noted above, comments on the proposed amendment are due by February 18, 2014.

Note that the change will only apply to pension plans registered in Ontario since it is only being made to the Ontario pension regulations.

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