Supervisory Framework

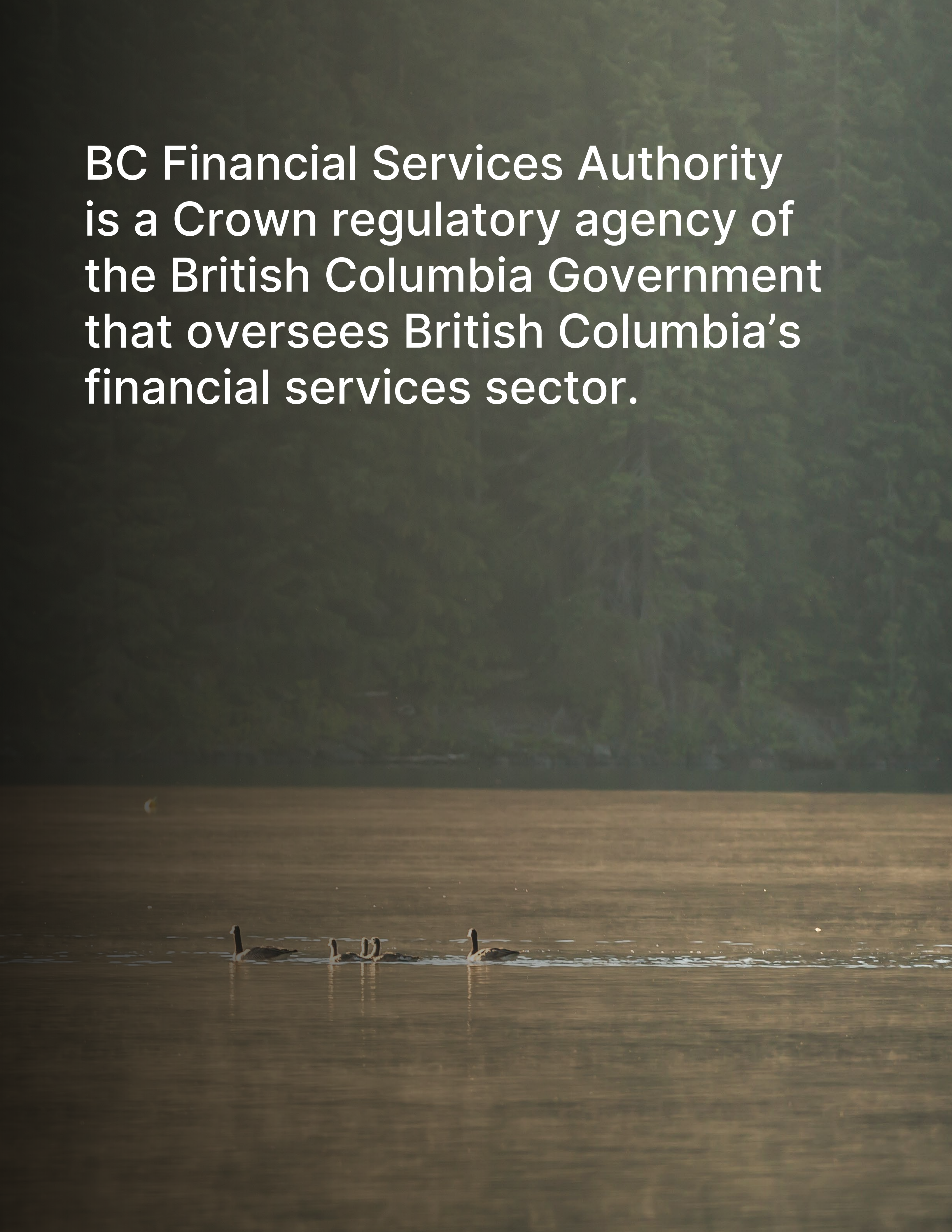
For Pension Plans Registered in British Columbia

APRIL 2025

BCFSA

CLASSIFIED: PUBLIC

BC Financial Services Authority is a Crown regulatory agency of the British Columbia Government that oversees British Columbia's financial services sector.



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1. Introduction

BC FINANCIAL SERVICES AUTHORITY

BC Financial Services Authority ("BCFSA") is a Crown regulatory agency of the British Columbia (B.C.) Government, established by the *Financial Services Authority Act*, *2019*.

BCFSA's mandate is to ensure the safety and soundness of B.C.'s financial services sector and to safeguard the interests of depositors, policyholders, beneficiaries, and pension plan members as they interact with the sector.

In the pensions segment, BCFSA supervises and regulates over 600 registered pension plans in the province to determine whether they are in sound financial condition and compliance with the *Pension Benefits Standards Act* ("PBSA") and other relevant statutes. The PBSA sets minimum standards for B.C. pension plans and is designed to protect the interests of plan members and their beneficiaries. As part of protecting the financial health of the pension plans, the PBSA also establishes rules for investing a plan's assets and sets funding and solvency standards.

THE SUPERVISORY FRAMEWORK

This document sets out a principle- and risk-based supervisory framework for pension plans registered in the province. It replaces the regulatory framework for B.C. pension plans released in May 2014.

The supervisory framework is an overview of BCFSA's approach to pension supervision and may be of interest to all plan stakeholders. It is designed for universal application across all plan types and sizes and is used to assist BCFSA with its objective of reducing the risk of benefit loss for plan members and beneficiaries. The framework guides BCFSA's work to identify inappropriate or sub-optimal practices and intervene, as required.

This framework applies to B.C. registered pension plans and is consistent with the high-level principles of the 2021 BCFSA Supervisory Framework for Provincially Regulated Financial Institutions.

2. Key Principles

Below are key principles guiding BCFSA in its supervision of the B.C. registered pension plans. BCFSA is outcomes-focused and aims to minimize regulatory burden on pension plans by using a more flexible regulatory approach, rather than being overly prescriptive.

FOCUS ON MATERIAL RISK

Risk-based supervision assesses the estimated impact of risks and the likelihood of their occurrence. The supervision of the B.C. pension plans focuses on early identification of the most significant risks, allocation of supervisory resources to plans with the highest risk profile, and commensurate intervention as required. Focus is given to risks with the greatest detrimental impact on BCFSA's mandate to safeguard the benefits of pension plan members and promote a properly functioning and stable segment. Highest impact pension plans and activities are those considered to be a potential source of systemic risk, in that their failure would result in extensive losses to the broader B.C. economy, in addition to losses to members of the pension plans.

FORWARD LOOKING, EARLY INTERVENTION

Risk assessment is forward-looking, and is supported by use of indicators, projections, and scenario analysis to facilitate early identification of risk and enable timely intervention. Priority is given to risks with the highest likelihood and potential impact. While risk management decisions are the responsibility of a pension plan administrator, the aim of the supervisory approach is to ensure that any measures put in place will reduce the likelihood of a material risk's occurrence and its impact on a pension plan. BCFSA's supervisory approach helps to reduce, but not eliminate, the likelihood of pension plan failure.

PROPORTIONALITY

Risk assessment and the intensity of supervision are based on the principle of proportionality. In its risk assessment, BCFSA focuses more on plans with the highest risk profile, and those of the greatest size and complexity. BCFSA aims to ensure that the degree of intervention will be commensurate with the level of risk.

SOUND, PREDICTIVE JUDGMENT

Risk assessment relies upon sound, predictive judgment in identifying and assessing risks as well as determining, from a wide variety of supervisory and regulatory options available, the most appropriate approach to ensure that the risks a pension plan faces are adequately managed. To ensure adequate quality, BCFSA requires that these judgments have a clear, supported rationale.

COLLABORATION

BCFSA relies on pension plan administrators and external service providers for information to support its regulatory work. While the plan administrators retain primary responsibility for their governance, risk management, and operational decisions, BCFSA employs a collaborative approach, engaging with pension plans and stakeholders to find solutions that optimize outcomes for pension plan members and beneficiaries. These collaborative solutions should be risk-based in nature and proportionate to each pension plan's specific circumstances, complexity, and risk profile.

BCFSA designates a relationship manager for each pension plan, who is the main point of contact for the pension plan and responsible for maintaining the plan's risk profile.

DYNAMIC ADJUSTMENT

Risk assessment and internal scoring (tiering, rating and staging levels, other indicators) is continuous and dynamic to ensure that changes in risk trends are identified early, and relevant pension plan risk profiles are updated in a timely manner. As a modern and effective regulator, BCFSA's core supervisory process is flexible whereby identified changes in risk result in updated priorities for supervisory work. These risks may be identified in continuous monitoring activities with the plans and members, such as reviews of actuarial valuation reports, annual pension reports, amendments, and substantiated member complaints, or through monitored industry and macro-environment trends.

3. Key Risks

BCFSA, as part of its core supervisory process, assesses certain key risks for the B.C. pension plans. Key risks are the most significant material risks, that have the greatest potential for detrimental impact on BCFSA's mandate to safeguard the benefits of pension plan members.

FUNDING RISK

Adequate assets are critical for the sustainability of a pension plan. Funding risk is the risk that a pension fund does not have sufficient assets to meet its obligations on either a going concern or solvency basis.

When assessing this risk for a pension plan, BCFSA looks at the actual and forecasted funded position of the plan, and how the plan's ability to meet its obligations would be affected by financial stress.

INVESTMENT RISK

Investment returns are vital to securing current and future pension benefits for members and beneficiaries. Investment risk is the risk of incurring losses relative to the expected return on investment. There are various types of investment risk including liquidity risk, counterparty/credit risk, currency risk, market risk, environmental, social and governance risk, amongst others.

When assessing investment risk for a pension plan, BCFSA looks at factors such as the investment strategy in view of the plan's objectives, risk appetite, asset mix, fund returns (historical and projected), liquidity, and liability profile. In the case of defined contribution plans, BCFSA considers the appropriateness of investment choices provided to members.

GOVERNANCE AND OPERATIONS RISK

Good governance and solid operations are two cornerstones of effective pension plan management. Governance risk is the risk related to gaps in the oversight of the plan's operation and management, leading to a breach of fiduciary duty. Operational risks include risks arising from inadequate internal controls or processes, people and systems, regulatory/compliance risk, and communication risk.

When assessing governance and operations risk for a plan, BCFSA looks at how effective the pension plan administrator is at identifying and making appropriate decisions to manage significant risks to members' benefits, including alignment to its own risk appetite and the plan's compliance with the PBSA. BCFSA also considers how members' benefits could be at risk due to the operations of the pension plan, and includes assessment of the administrator's oversight of third-party service providers, day-to-day administration, data management, member communications, and technological considerations.

BUSINESS/PLAN SPONSOR RISK

Fundamental to the sustainability of a pension plan is the ability of the plan sponsor to continue to fund the pension plan obligations. Business/plan sponsor risk is the risk that an employer is unable to meet its contribution obligations or continue the plan over the long-term, leading to a plan wind-up.

When assessing this risk, BCFSA considers the employer's future ability to continue the plan or to fund the plan obligations, which may include looking at the employer's ability to pay, industry trends and historical funding compliance. BCFSA may also consider the impact of the pension plan design on funding requirements. For defined contribution pension plans, unless the plan has contributions in arrears, the risk is whether the employer can continue to offer these pension benefits in future to its employees.

OTHER RISKS

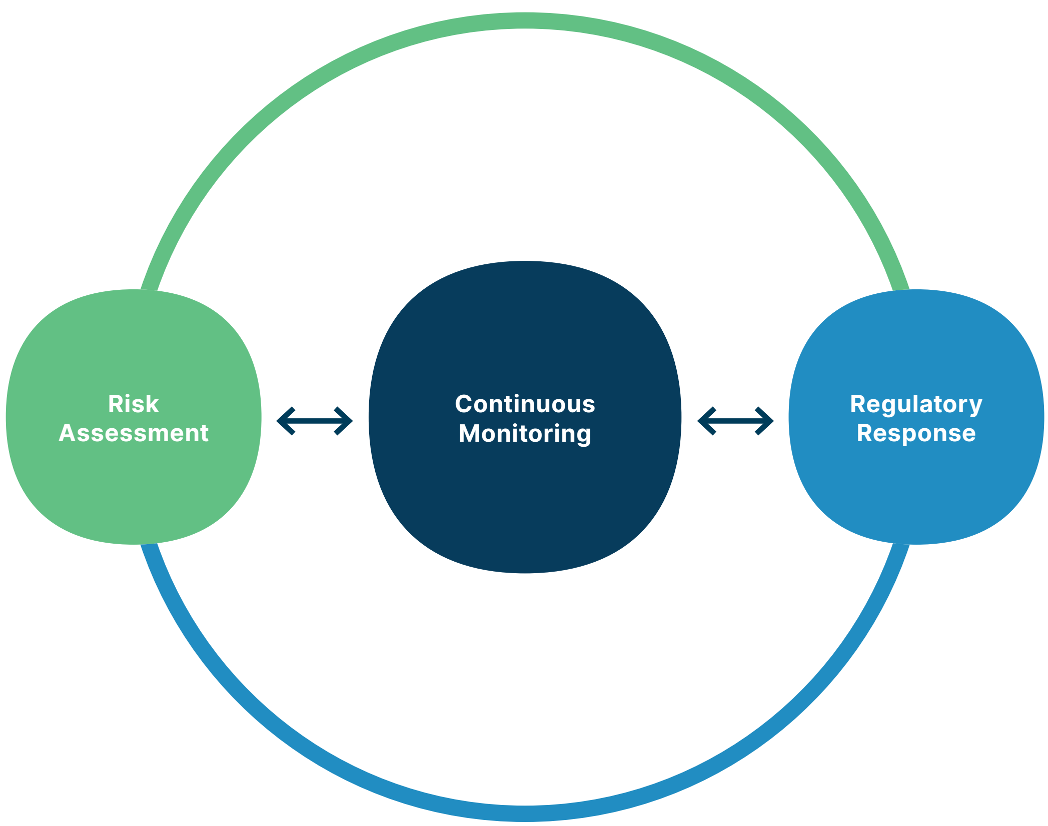
In alignment with the principle of dynamic adjustment, where the core supervisory process identifies changes in risk through continuous monitoring activities, BCFSA's approach and focus will shift to accommodate assessment of those new or changed risks for the B.C. pension plans.

4. Core Supervisory Process

BCFSA views risk-based supervision as iterative and dynamic. There is an ongoing continuum of supervisory work that oscillates between continuous monitoring, assessment of plan risk, and regulatory response, including plan-specific and thematic reviews, other types of intervention, and reporting.

Continuous monitoring refers to the ongoing review of information on the pension plan and its environment. It aims to keep abreast of changes that are occurring at the plan-level or in the macro-environment and to identify systemic trends and/or emerging issues that impact the risk profile of the pension plan. Continuous monitoring is an integral component of BCFSA's supervisory framework and is informally embedded into every step of the process.

The more BCFSA works with the various pension plans in B.C., the better it understands each plan within the business context in which it operates and the risks that plan administrators are facing.



5. Risk Assessment

Each pension plan is assessed on its characteristics, quantitative and other risk indicators. The assessments and internal scoring focus primarily on the key risks of funding, investment, governance and plan sponsor/business risk, while allowing flexibility for other risks to be captured, as appropriate.

TIER RATING

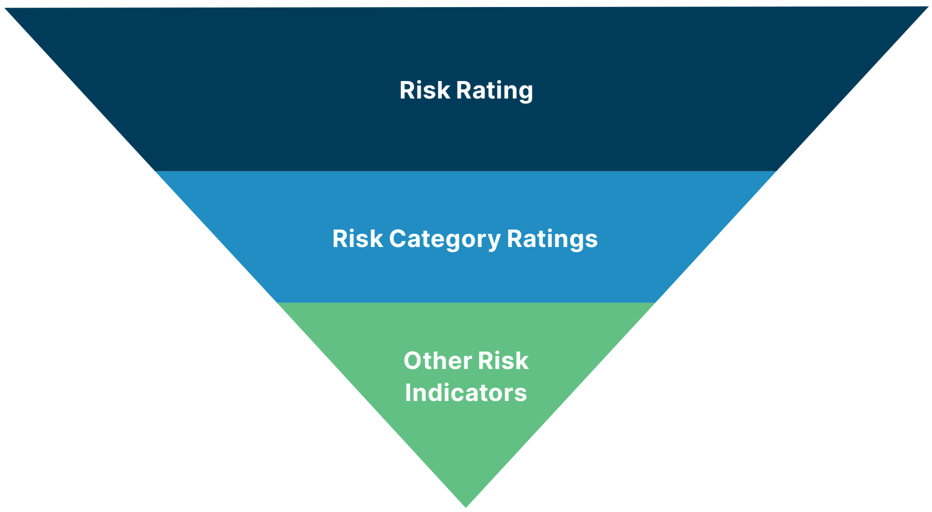
BCFSA assigns a Tier Rating to each pension plan using a scale of A to E. The Tier Rating is assigned based on asset and membership size, complexity of the plan design, and potential impact of the plan's failure on the financial system and economy at large. The Tier Rating system guides the granularity of the activities used to assess a plan's risk profile. It also helps apply BCFSA's risk appetite and is consistent with the principle of proportionality.

Table 1 outlines the definition of each Tier Rating:

Tier	Risk Level	Definition
A	High	Very large and/or complex benefit formula plans. The size of these plans is great enough that their failure would have an impact on the broader financial system and economy at large
B	Medium/high	Large benefit formula and defined contribution plans with medium/high level of complexity
C	Medium	Medium benefit formula and defined contribution plans with medium level of complexity
D	Medium/low	Smaller defined contribution plans with medium/low level of complexity, and all other benefit formula plans
E	Low	All other defined contribution plans

6. Risk Profile

BCFSA develops a risk profile for each plan based on a Risk Rating, and, for certain plans (as appropriate), other risk indicators and/or Risk Category Ratings (see Risk Reviews).



Plan's Risk Profile

RISK RATING

BCFSA assigns a Risk Rating to plans using early warning risk indicators to identify where pension plans may be exposed to higher amounts of risk.

- For benefit formula plans, the focus is on risk to the plan's ability to meet its future obligations to members.
- For defined contribution plans, the focus is on risk to members achieving desired outcomes.

The indicators used in the Risk Rating methodologies are developed from various sources of information which include a pension plan's funded status, plan design, contributions, demographics, assets, and investment performance. These quantitative early warning risk indicators help to determine the relative risk of all plans based on common metrics across each type of plan.

The Risk Rating is expressed as a numerical score from 1 to 5, reflecting BCFSA's assessment of a plan's risk level based on the likelihood and/or severity of varying degrees of material adverse impact.

A material adverse impact represents loss(es) arising from event(s) that impairs the financial position of a pension plan and causes potential harm to plan beneficiaries and other stakeholders.

Table 2 outlines the definition of each relative Risk Rating:

Risk Rating	Risk Level	Definition
5	High	Key risks present with high likelihood and/ or severe consequences of material adverse impact to member benefits.
4	Medium/high	Key risks present with medium/high likelihood and/or moderately severe consequences of material adverse impact to member benefits.
3	Medium	Key risks present with medium likelihood and/or moderate consequences of material adverse impact to member benefits.
2	Medium/low	Key risks present with medium/low likelihood and/or mild consequences of material adverse impact to member benefits.
1	Low	Key risks not present or low likelihood and/ or low/no consequences of material adverse impact to member benefits.

Different weights may be assigned to each early warning risk indicator score, based on the plan type or segment, reflecting the significance of these indicators relative to a plan's characteristics. The Risk Rating methodologies and weights are reviewed regularly to ensure they remain appropriate.

OTHER RISK INDICATORS

Risk indicators other than those used in the Risk Rating methodologies may be appropriate to incorporate into a plan's risk profile. These risk indicators might be identified in BCFSA's continuous monitoring of the plans, through its regular supervisory and compliance reviews of annual, cyclical and ad hoc filings, industry trends, and/or substantiated member complaints.

7. Regulatory Response

The individual pension plan's risk profile drives BCFSA's supervisory activities and intensity of intervention.

STAGE RATING

All plans are assigned a Stage Rating of 0-4, which reflects the plan's risk profile and an application of sound judgement. The plan's risk profile reflects the plan's Risk Rating, and, for certain plans as appropriate, any other risk indicators and/or Risk Category Ratings that have been considered in the risk assessment, continuous monitoring and ongoing supervision of the pension plan and industry. The Stage Rating indicates the severity and urgency of the plan's issues, the corrective actions that the plan administrator must take to resolve the issues, and the degree of supervisory intervention required.

In determining the supervisory activities/level of intervention for a pension plan with a particular risk profile, BCFSA is guided by the following Stage Rating framework.

STAGE 0 **Normal**	**RISK PROFILE** The plan has a sound financial position (both going concern and solvency) and sufficient governance and risk control frameworks commensurate with its nature, scope, complexity, and risk profile. The plan is not expected to fail and/or pose any undue risk to beneficiaries. **Stage 0 supervisory activities may include:** • Identifying issues or problems from ongoing supervisory work (including continuous monitoring), and making recommendations for best practices in risk management, governance, or internal controls; and • Carrying out other supervisory actions as required or at BCFSA's discretion, including: ◦ Reviewing required filings; ◦ Conducting in-depth or targeted supervisory risk reviews; ◦ Information requests to plan administrators and/or fundholders; and/or ◦ For benefit formula plans only: Reviewing actuarial reports and proactively estimating the funded ratio and expected contributions.
STAGE 1 **Early Warning**	**RISK PROFILE** BCFSA has identified issues in the plan's financial position, policies or procedures that expose vulnerabilities, which, if left unaddressed, may deteriorate into serious issues that pose a threat to the security of members' benefits. The issues are within the administrator's abilities to address. The plan is not expected to fail or pose any immediate undue risk to beneficiaries. **In addition to Stage 0 activities, Stage 1 supervisory activities may include:** • Supervisory risk review and communication of Stage Rating, • More frequent and/or more targeted monitoring together with targeted follow-up reviews; • More frequent and detailed collection and analysis of data, which may include requiring: ◦ Filing of periodic fundholder reports showing that the required contributions have been remitted to the pension fund; ◦ Filing of a revised or early actuarial valuation report; and ◦ Scenario/stress tests be conducted. • Recommending the plan administrator provide certain information to plan members; • Obtaining and reviewing the plan's Statement of Investment Policies and Procedures; and/or • Obtaining and reviewing the plan's financial information (e.g. list of pension assets, fund's market returns).

STAGE 2

Elevated Risk to Members' Benefits or Rights

RISK PROFILE

The pension plan's risks pose a threat to the security of members' benefits if they are not promptly addressed.

The pension plan must address identified problems and implement remediation plans to reduce its stage rating. The plan administrator must demonstrate a commitment to improvement by establishing detailed mitigation plans to reduce its stage rating to "normal' (Stage 0) or "early warning" (Stage 1) with specific, BCFSA-accepted timelines for implementation.

BCFSA will intensify its supervisory monitoring of key risk and governance metrics. Contact with the plan administrator will increase to ensure open, effective communication is maintained as the plan's risk profile improves. The plan is unlikely to fail and/or pose undue risk to beneficiaries in the medium-term.

In addition to activities in preceding stages, Stage 2 activities may include:

- Detailed, time sensitive remediation strategies/plans;
- Filing of an early or revised actuarial report;
- The plan administrator to provide appropriate disclosure to plan members;
- The plan administrator to hold a meeting with plan members or other relevant parties;
- Freezing/restricting portability for transfer of benefits from the plan or annuity purchases that would impair the solvency of the plan;
- Issuing a notice of intent to issue a Direction of Compliance; and/or
- Special examinations by external experts.

STAGE 3

Substantial Risk to Members' Benefits or Rights

RISK PROFILE

The plan exhibits unacceptable risks that present material and immediate threats to members' benefits. Previous supervisory actions have been unable to mitigate or address these risks. Unless effective corrective action is taken immediately, the plan's viability is in serious doubt, and plan termination is a strong possibility.

In this stage, these corrective actions will be mandated by BCFSA. More intensified supervisory intervention is necessary to avert further risk or governance issues.

In addition to activities in preceding stages, Stage 3 activities may include:

- Reviewing and updating remediation plans;
- Designation of an actuary to prepare an actuarial report for funding purposes;
- Issuance of a Direction of Compliance;
- Imposing administrative penalties;
- Revocation of the registration of the plan where a Direction of Compliance has not been complied with;
- Removal of the plan administrator and appointment of a temporary replacement administrator;
- Termination of the plan; and/or
- Application to the Supreme Court for an order requiring the administrator to comply with or cease contravention of the PBSA.

STAGE 4	RISK PROFILE
Permanent Insolvency	The windup of the plan with a loss to member benefits is inevitable. The plan may be in the process of being wound-up with a solvency deficiency, or alternatively BCFSA has determined that the employer(s) are not able or willing to fully fund the plan and therefore is pursuing enforcement action to wind-up the plan in an unfunded position. Benefits will/are likely to be reduced. **Stage 4 activities may include:** • Direction to the plan administrator to wind-up the plan; • Appointment of a plan administrator to oversee the wind-up of the plan; and/or • Ensuring that creditor claims on behalf of plan beneficiaries are made against the employer(s).

As supervisory work is conducted, the risk profile of the plan is updated. Successful implementation by a pension plan of BCFSA recommendations or required actions would improve the plan's risk profile, and the Stage Rating will be updated accordingly. BCFSA responds by adjusting its work priorities, continuing to ensure that important and emerging matters and higher-risk plans are prioritized for supervisory action.

BCFSA's goal is that all pension plans registered in B.C. have a Stage Rating of 0 (normal), as this would mean that the segment is sustainable for the long-term, and there is sufficient governance and risk control frameworks in place. For plans that are above a Stage Rating of 0, the supervisory activities that may occur at those stages are geared towards encouraging downward movement to a Stage Rating of 0.

RISK REVIEWS

A core supervisory activity that BCFSA plans for and undertakes each year is supervisory risk reviews.

Plan selection and review scope

At least annually, BCFSA updates the Risk Ratings (and the Stage and Tier Ratings, as appropriate) with information received from annual filings from the pension plans and other sources. BCFSA uses the results of the updated risk profiles to prioritize pension plans and/or themes for the supervisory risk reviews that will happen in the year.

These supervisory risk reviews are intended to be a comprehensive review of the selected plans and/or areas of interest or concern. The objective of the risk review is to have all parties involved better understand the risk(s) faced by the plan and the possible impact of an adverse event on the plan and its members and, where appropriate, have the plan take meaningful action to address or mitigate those risks.

The risk reviews focus on some or all of the key risk categories (see Key Risks section of this document) for each of the selected plans. The chosen area(s) of focus may depend on the plan's characteristics and risk profile, or where potential compliance or other issues have been observed. Where a risk review is completed for one of the key risk categories, BCFSA assigns a Risk Category Rating for each applicable category. The Risk Category Ratings supplement the Risk Rating (and, as appropriate, other risk indicators) and together these ratings provide a more meaningful whole risk profile of the relevant pension plan.

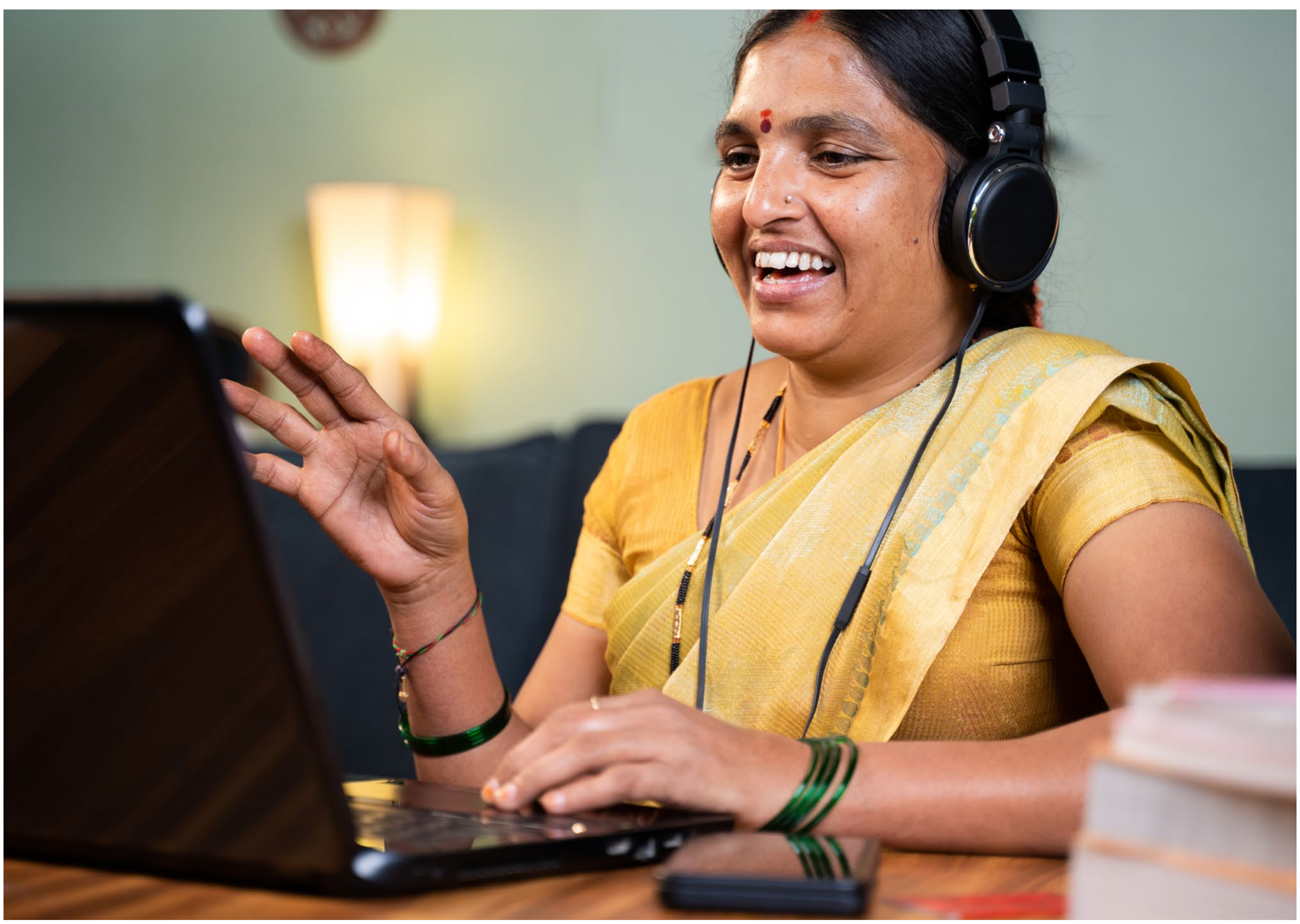
The supervisory risk reviews are labour- and time-intensive for all parties involved. Accordingly, and aligned with BCFSA's risk-based supervisory approach, not all plans will undergo supervisory risk reviews or have Risk Category Ratings if their Tier Rating and/or risk profile does not indicate a need for this activity or level of intensity in BCFSA's supervision of the individual plan.

Reporting

The supervisory risk review is transparent and dynamic. BCFSA engages the plan administrator in constructive dialogue throughout the process to share material concerns and provide an opportunity to clarify or confirm issues that are raised. In addition to ongoing discussions with plan administrators, BCFSA communicates to plans formally through supervisory letters as part of the supervisory risk review process.

The supervisory letter communicates the results of the review. In line with the principle of collaboration, key findings and recommendations are typically first discussed with the plan administrator before issuance of the supervisory letter. The letter also provides recommendations and required actions to address the identified concerns. The plan administrator is asked to provide a written response within a predetermined period after receipt of the letter and confirm that the regulatory action plan will be implemented to address findings from the review, with specific timelines for implementation.

BCFSA, in its continuous monitoring of the plan, then supervises the regulatory action plan's implementation and updates the plan's risk profile as appropriate.



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