



Reference Document:

GOVERNANCE CONSIDERATIONS FOR SMALL- TO MEDIUM-SIZED CAPITAL ACCUMULATION PLANS (CAPs)

This reference document is intended to assist CLHIA members in their support of small- to medium-sized Capital Accumulation Plan (CAP) sponsors with smaller or simpler CAPs (other than a pension plan) in understanding what a governance framework could look like. The CAP sponsor is responsible for establishing, maintaining, managing, and eventually terminating the CAP.

The document is NOT intended as legal advice and members are encouraged to seek their own advice in developing a governance framework which complies with regulatory requirements. CLHIA members, in their capacity as service providers to CAP sponsors, may wish to share the document, or portions thereof, with CAP sponsors. CLHIA makes no representation about the accuracy or completeness of the document and assumes no liability to third parties (including CAP sponsors) for errors or omissions.

CAPSA Guideline No. 3 Guideline for CAPs

- In September 2024, CAPSA updated its Guideline No. 3 for CAPs, introducing recommendations for all CAP sponsors to establish and document a governance framework, specified in section 2.1.2.
- The governance framework is flexible and varies depending on the size, complexity, and design of the CAP as well as with the size and complexity of the plan sponsor.

What is a Capital Accumulation Plan (CAP)?

A CAP is a tax-assisted investment or savings plan that allows members, such as employees, to make decisions about the investments in their individual account, including investment options that have been selected by the CAP sponsor (e.g., the employer). Examples of CAPs for small- to-medium-sized businesses typically include:

- group registered retirement savings plan (group RRSP)
- deferred profit-sharing plan (DPSP)
- group tax-free savings account (group TFSA)

The CAP sponsor is responsible for establishing, maintaining, managing, and eventually terminating the CAP. For details of the responsibilities of a CAP sponsor and plan member, please refer to CAPSA Guideline No 3.

Purpose of this document

- This document is intended to assist CLHIA members in their support of small- to medium-sized CAP sponsors with smaller or simpler CAPs (other than a pension plan) in understanding what a governance framework could look like.
- Smaller or simpler CAPs generally have fewer membership categories, a simple contribution formula, a limited number of investment options, stable and limited membership, and lower assets/cash flow.
- This document does not provide an exhaustive description of what a governance framework should include, as each situation will depend on the CAP, the CAP sponsor and the membership of the CAP. CAP sponsors of larger or more complex CAPs may require more detailed governance programs.

Application of this document

- This document assumes the CAP sponsor will be working with an advisor or CLHIA member who may assist with certain tasks, such as investment options and member record keeping.
- This document does not address requirements for a Defined Contribution Pension Plan (DCPP). While DCPPs are CAPs, they are also subject to specific governance requirements outlined in pension legislation, CAPSA's Guideline No. 4 on Pension Plan Governance, CAPSA's Pension Plan Administrator Governance Self-Assessment Questionnaire, as well as CAPSA's Guideline No.10 on Risk Management for Plan Administrators.

CAP Governance

Governance refers to the processes to ensure the effective administration of a CAP.

Steps to take to achieve it:

1. Consider retaining an advisor and service provider(s) to assist you, if you are not already working with these.
2. Create a document that will explain how you intend to address the governance factors listed on the right. Further details are provided in the chart below.
3. Set up a review process and determine the frequency of the review of your advisor, service providers and the governance process.

Governance Factors

- **What are the roles, responsibilities and duties of stakeholders?**
- **What is the communication strategy with members?**
- **How will conflicts of interest be managed?**
- **What are the risks involved with the CAP and how will they be managed?**
- **What is the process for reviewing advisors, service providers and the governance process?**

Governance Factor	Examples of activities/tasks for the CAP sponsor to consider
<p>Roles, Responsibilities, and Duties Ensure you understand and document the tasks and responsibilities.</p>	<ul style="list-style-type: none"> • What functions does your company as the CAP sponsor retain and what functions will be performed by your advisor or a service provider? • Identify which company staff are responsible for the CAP-related tasks the company is responsible for. • What are the CAP members' responsibilities?
<p>Communication Strategy with CAP members Establish and document a communication strategy and/or understand the strategy being used by your service provider.</p>	<ul style="list-style-type: none"> • What information will CAP members receive or have access to (e.g., annual statement, plan summary, access to investment options and education tools, important plan changes, etc.) so they can meet their responsibilities? • Who will provide each of the various communications? • How will the information be provided (i.e., digitally, paper, or combination)? • When will the various communications be provided? • Inform CAP members how they can ask questions or make complaints. • Consider: <ul style="list-style-type: none"> ○ Using plain language ○ A design to improve CAP members' engagement, decisions, and outcomes
<p>Conflict of Interest Management</p>	<ul style="list-style-type: none"> • Consider the appropriateness of CAP decisions where a stakeholder is involved in the decision and could potentially benefit from that decision. <ul style="list-style-type: none"> ○ Keep records of the reasons for plan-related decisions regardless of the existence of a conflict of interest ○ Disclose any conflict of interests identified to your members • Consider potential conflicts of interest your service provider may have. • Review service provider policy for addressing conflicts of interest.
<p>Risk Management</p>	<ul style="list-style-type: none"> • Identify potential risks with the CAP and administration (see chart below). • How will you manage the CAP's main risks?

Examples of Potential Risks and Controls	
Example of risks	Possible control mechanisms to be used by the CAP sponsor
Lack of knowledge, expertise, and resources of the CAP sponsor staff to deal with administrative tasks.	<ul style="list-style-type: none"> • Use a service provider and/or an advisor with expertise to carry out some of the tasks or duties. • Where internal CAP sponsor staff have responsibilities, ensure that they are adequately trained.
Non-compliance with a law, regulation, or guideline such as: <ul style="list-style-type: none"> • CAPSA Guideline No. 3 • Tax laws • Privacy laws • Employment standards laws • Unclaimed property laws (where applicable) 	<ul style="list-style-type: none"> • Work with service provider(s) familiar with the CAP's regulatory environment. • Where internal CAP sponsor staff have responsibilities, ensure that they are adequately trained.
Operational staff turn-over.	<ul style="list-style-type: none"> • Document processes and procedures. • Ensure sufficient alternate and back-up resources.
Operational errors and/or CAP system failures.	<ul style="list-style-type: none"> • Document processes and procedures. • Where internal CAP sponsor staff have responsibilities, ensure that they are adequately trained. • When using a service provider, ensure the contract includes a clear description of tasks and responsibilities. • Where available, obtain operational audit reports/periodic reports from your service providers. • Ensure regular system back-ups and business continuity plan.
Information, data, or documents unavailable, incomplete, or lost. For example, CAP records, employee data such as employment and CAP entry dates and the rate and/or amount of contributions.	<ul style="list-style-type: none"> • Establish a document retention policy and procedures documenting at least: <ul style="list-style-type: none"> ○ The information that needs to be kept ○ Where will it be retained and for how long • Ensure service provider has a record retention policy.
Privacy or security breaches.	<ul style="list-style-type: none"> • Implement controls to secure CAP members' personal data. • Ensure service providers have controls in place (i.e., use a secure environment to exchange information with your service providers).
CAP member not informed or communication incomplete.	<ul style="list-style-type: none"> • Implement a communication strategy, which includes educational aspects related to the CAP. • Review all documents, tools and educational materials to ensure that the information is accurate and useful to members. • Make sure that email and mailing addresses are up to date.
Investment performance risks.	<ul style="list-style-type: none"> • Work with a service provider who has investment expertise. • Ensure communications clearly outline risks of investment performance associated with investment options.