

Human Resources Legislative Update

Letters of Credit Regulation Proposed to Implement Pension Reform Measures

Date: July 30, 2012

On July 30, 2012, the Ontario Ministry of Finance posted details of a [proposed, supporting regulation to implement the new framework for letters of credit](#) under the yet to be proclaimed section 55.2 of the *Pension Benefits Act* (“PBA”).

As noted in our [“Pension Reform Measures in Ontario Have Arrived” FTR Now of July 27, 2012](#), in [Bill 120](#), the PBA was amended to allow the use of letters of credit in lieu of cash contributions to fund deficits in defined benefit plans up to 15% of a plan’s solvency liabilities. The government reaffirmed its commitment to providing employers with additional flexibility in the funding of their pension plans in the [2012 Budget](#). The regulatory details proposed are designed to implement these measures, and would:

- identify the maximum value of letters of credit;
- set out the calculation method for determining the maximum value;
- identify who can use and issue letters of credit;
- set out the contractual requirements for letters of credit;
- set out the provisions for holding letters of credit in trust;
- determine circumstances in which a default is deemed to have occurred;
- establish procedures to be followed in the event of a default;
- establish requirements for permissible trust agreements; and
- set out distribution and inspection requirements.

Stakeholders and interested parties may [submit comments on the proposed regulation electronically](#) by August 31, 2012.