By Jeff Sanford

To contribute, call (416) 596-5490, fax (416) 596-5071 or e-mail asharratt@rmpublishing.com

> **"WE BELIEVE THAT THE CURRENT SHORT-, MEDIUM- AND LONG-TERM ECONOMIC ENVIRONMENTS ARE SUPPORTIVE OF ELIMINATING THE FPR."**
>
> **—KEITH AMBACHTSHEER, PRESIDENT OF THE ASSOCIATION OF CANADIAN PENSION MANAGEMENT**

ACPM wants Foreign Property Rule eliminated

A coalition of professional groups representing Canadian pension fund managers has released a new study called *The Foreign Property Rule: A Cost-Benefit Analysis*. It suggests that scrapping the Foreign Property Rule (FPR) would benefit Canadian investors. Leaving it in place could leave the Canada Pension Plan Investment Board (CPPIB) dangerously undiversified.

The study, commissioned by The Association of Canadian Pension Management (ACPM) and the Pension Investment Association of Canada, works to rebut many of the commonly cited arguments against lifting the FPR.

According to the study, conducted by two economists from the University of Western Ontario—David Burgess and Joel Fried—there was no measurable impact on the Canada/U.S. exchange rate when the foreign property limit was moved from 20% to 30% between 2000 and 2001, nor did it affect the cost of capital in Canada.

As proof, they point to the fact that the Standard & Poor's (S&P)/Toronto Stock Exchange (TSX) Composite Index moved from 13th to third place in terms of international performance during the time the limit was raised.

In fact, say the authors, Canadians would realize a benefit of between $1.5 billion and $3 billion annually if the FPR was abolished. “We believe that the current short-, medium- and long-term economic environments are supportive of eliminating the FPR,” said Keith Ambachtsheer, president of ACPM. “We do not think there would be any material effects on the Canadian dollar, the balance of payments, job creation, the ability of Canadian governments and corporations to raise capital or the cost of capital in Canada.”

The study also introduces a new argument into the debate: that the CPPIB may soon face diversification issues if the foreign property cap isn’t lifted.

Expected to grow to some $100 billion within a decade, the CPPIB could eventually control 5% of the market capitalization of the S&P/TSX Composite Index. According to the authors, this would create a “double jeopardy” in having future contributions and investment returns tied to the same small economy. “It goes against basic diversification theory,” says Fried.

The report comes just as the government is preparing the next federal budget. Ambachtsheer hopes to see something in the next two budgets. “It’s a bit of a short window for the upcoming budget,” he says. “But I would expect significant reform in the next one. I think this has to be taken seriously. Besides, how often does Ottawa get to deal with something like this that has no downside?”

He’s hopeful that recent shake-ups in the Liberal cabinet will help ACPM’s case. “Mr. Martin has had conceptual problems with getting rid of the FPR,” says Ambachtsheer. “And while I haven’t talked to [federal Finance Minister John] Manley, we do know that his number two man, Maurizio Bevilacqua, (secretary of state, international financial institutions) is in favour of scrapping the FPR. So there is someone with a sympathetic ear in cabinet.”

CORRECTION

We reported in December that Bruce Clarke left Connor Clark & Lunn Financial Group in 1999 to form Arrowstreet Capital Ltd. He actually left PanAgora Asset Management in 1999 to form Arrowstreet, which later partnered with CC&L to create Connor, Clark & Lunn Arrowstreet Capital Ltd.