FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Financial Statements
For the year ended March 31, 2011

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Balance Sheet
As at March 31, 2011

	2011 ($ '000)	2010 ($ '000)
ASSETS		
Current		
Cash	1	1
Accounts receivable	50,558	40,444
Investments (Note 4)	617,028	628,348
	667,587	668,793
LIABILITIES AND FUND DEFICIT		
Current		
Accounts payable and accrued liabilities	3,997	3,456
Current portion of loan payable (Note 5(a))	11,000	11,000
Claims payable	521,910	410,751
	536,907	425,207
Loan payable (Note 5(a))	136,861	140,243
	673,768	565,450
Fund (deficit) / surplus	(6,181)	103,343
	667,587	668,793

See accompanying notes to financial statements

Approved by:

Chief Executive Officer
and Superintendent of Financial Services
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Operations and Fund Deficit
For the year ended March 31, 2011

	2011 ($ '000)	2010 ($ '000)
Revenue		
Provincial grant		500,000
Premium revenue	57,419	43,217
Pension plan recoveries (Note 6)	4,444	12,033
Investment income (Note 4)	5,242	556
	67,105	555,806
Expenses		
Claims	166,472	391,771
Amortization of loan discount (Note 5 (a))	7,618	7,780
Pension consulting services (Note 7)	1,797	5,137
Interest on loans (Note 5 (b))		1,558
Administration fee (Note 8)	508	506
Investment management fees (Note 8)	205	69
Unrealized loss (gain) on investments (Note 4)	71	(180)
	176,671	406,641
Recoveries of pension consulting services (Note 7)	(42)	(1,529)
Excess of expenses over revenue / (revenue over expenses)	109,524	(150,694)
Fund deficit / (surplus), beginning of year	(103,343)	47,351
Fund deficit / (surplus), end of year	6,181	(103,343)

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Cash Flows
For the year ended March 31, 2011

	2011 ($ '000)	2010 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of (expenses over revenue) / revenue over expenses	(109,524)	150,694
Items not affecting cash:		
Unrealized (gain) loss on investments (Note 4)	71	(180)
Amortization of loan discount (Note 5(a))	7,618	7,780
Loss on disposal of investments (Note 4)	627	351
	(101,208)	158,645
Changes in non cash working capital		
Accounts receivable	(10,114)	8,718
Accounts payable and accrued liabilities	541	(1,117)
Claims payable	111,159	327,235
	378	493,481
Cash flows from investing activities		
Purchases of investments	(9,661,394)	(4,040,087)
Proceeds from sale of investments	9,672,016	3,557,572
	10,622	(482,515)
Cash flows from financing activities		
Proceeds on loans		130,000
Loan repayments	(11,000)	(141,000)
	(11,000)	(11,000)
Change in cash position	-	(34)
Cash position, beginning of year	1	35
Cash position, end of year	1	1

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2011

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the "Fund") is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the "Act").

2. FUND OPERATIONS

The purpose of the Fund is to guarantee payment of certain pension benefits of certain defined benefit pension plans wound up under conditions specified in the *Act* and regulations thereto. The regulations also prescribe an assessment payable into the Fund by plan registrants.

The Act provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans or grants on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund including any loans or grants received from the Province.

The Superintendent of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* is responsible for the administration of the Fund, and the Fund reimburses FSCO for the costs of the services provided. The investments of the Funds are managed by the Ontario Financing Authority, on a fee basis which are paid by the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO in accordance with Canadian generally accepted accounting principles. The significant accounting policies used to prepare these statements are summarized below.

(a) Financial Instruments

The Fund follows the accounting standards ~~issued by~~ the Canadian Institute of Chartered Accountants pertaining to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair market value, or in limited circumstances, at cost or amortized costs. The Fund has classified its financial instruments into the following categories:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- Cash and investments are classified as held for trading and recorded at fair value, with changes in fair value during the period recognized in the statement of operations and surplus.

- Accounts receivable is classified as receivables and valued at face value which approximates fair value given their short term maturities.

- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at face value which approximates fair value given their short term maturities.

- The non-interest bearing loan payable is classified as other financial liabilities and due to the concessionary nature of the loan is reflected at amortized cost using the effective interest rate method. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.

(b) Claims payable

Claims payable are liabilities in respect of those defined benefit pension plans prescribed by the Act that are wound up or in the process of being ordered wound up under conditions specified in the Act, and the amounts can be reasonably estimated. Liabilities are also recognized when there is a high probability a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators or estimates provided from actuarial consultants. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Premium revenue

An estimate of the premium revenue due from defined benefit pension plans at rates prescribed by the Act is recorded until receipt of the annual assessment certificate nine months after the plan's fiscal year end.

Differences in premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to premium revenue in the year when the actual amounts are determined.

(d) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that FSCO's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates and the differences could be material. Areas where significant estimates must be made include premium revenue and claims payable.

4. INVESTMENTS

As administrator of the investment assets of the Fund, FSCO has formed a Fund Management Committee, developed a Statement of Investment Policies and Guidelines and appointed the Ontario Financing Authority, a related party, as investment manager. The statement provides operational objectives, investment principles, policies and guidelines for the management of the investments and is reviewed annually.

4. INVESTMENTS (cont'd)

Investments consist of:

	2011 ($'000)		2010 ($'000)	
	Market Value	Cost	Market Value	Cost
Discounted notes	441,671	441,671	566,893	566,907
Government bonds	175,357	175,491	61,050	61,100
Master asset vehicle notes			405	405
	617,028	617,162	628,348	628,412

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities. The realized loss on the sale of securities amounted to $627 thousand (2010 – realized loss of $351 thousand). Unrealized changes in the market value of investments are reflected separately on the statement of operations and fund deficit.

The Fund's investment portfolio is exposed to various risks, which are mitigated by the type of investment and therefore risk is low. The associated risks with the investments are as follows:

Interest rate, term and liquidity risk:

Discounted notes with maturities between April and July 2011 have yields in the range of 0.918% to 1.180% (2010 – maturities between April and July 2010 and yields in the range of 0.229% to 0.450%), and government bonds have yields in the range of 1.299% to 2.052% for the current year (2010 – yields of 0.288% and 0.435%). At March 31, 2011, a 1% move in interest rates could impact the market value by approximately $1,200 thousand. Discounted notes represent instruments in highly liquid investments that are readily converted into known amounts of cash.

5. LOAN PAYABLE

(a) Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a $330 million loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of $11 million. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years total $55 million.

The face value of this non-interest bearing loan has been discounted to reflect its fair value outstanding as of March 31, 2011 as follows:

	2011 ($'000)	2010 ($'000)
Face Value	253,000	264,000
Less: Discount	(105,139)	(112,757)
Fair Value	147,861	151,243
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	136,861	140,243
Balance	147,861	151,243

The discount will be amortized to loan discount expense over the term of the loan based on the effective interest rate method. Amortization for the subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2012	7,447
2013	7,269
2014	7,081
2015	6,883
2016	6,676

5. LOAN PAYABLE (cont'd)

(b) Interest Bearing Loans
During fiscal 2010, the Minister of Finance provided the Fund with two interest bearing loans, both of which were repaid with accrued interest totaling $1,558 thousand on March 31, 2010.

6. PENSION PLAN RECOVERIES

Following distribution of claims and submission of a final wind up report any remaining funds are recovered by the Fund. During fiscal 2011, $4,444 thousand (2010 - $12,033 thousand) in recoveries were made by the Fund.

7. PENSION CONSULTING SERVICES

The Fund periodically engages the services of experts to represent the Fund's interests with respect to companies which have made claims against the Fund. For fiscal 2011, $1,797 thousand was paid to such experts related to negotiations involving one company (2010 - $5,137 thousand involving three companies). The Fund was reimbursed $42 thousand from the Ministry of Economic Development and Trade, a related party, for financial due diligence services received during the year.

8. RELATED PARTY TRANSACTIONS

For fiscal 2011, an administration fee of $508 thousand (2010 - $506 thousand) was incurred and has been paid to FSCO for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSCO are related parties.

Investment Management fees of $205 thousand include fees of $191 thousand (2010 - $63 thousand) paid to the Ontario Financing Authority, a related party.

The costs of processing premium revenue transactions are absorbed by FSCO without charge to the Fund.

Other related party transactions during the year have been disclosed in notes 4, 5 and 7.

9. MEASURES TO SUSTAIN THE FUND

The 2011 Ontario Budget re-affirmed the government's August 2010 announcement of committing to a four-part strategy to mitigate risks and enhance the sustainability of the Fund as follows:

a) build reserves through the $500 million grant, provided in March 2010;
b) raise future Fund revenues by increasing assessments in 2012;
c) reduce risk to the Fund by extending the eligibility period for covering new plans and benefit improvements from three to five years; and
d) reduce the Fund's exposure by strengthening pension funding rules.

10. SUBSEQUENT EVENTS

a) Recoveries in the range of $10 - $15 million dollars are expected in 2011.

b) On May 31, 2011 two claim allocations totalling $384 million were paid to the subject pension funds. Cash was provided from the proceeds of sale of invested discounted notes.