FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Financial Statements
For the year ended March 31, 2012

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Balance Sheet
As at March 31, 2012

	March 31, 2012 ($ '000)	March 31, 2011 ($ '000)	April 1, 2010 ($ '000)
ASSETS			
Current			
Cash	1	1	1
Accounts receivable	104,689	50,558	40,444
Investments (Note 5)	233,085	617,028	628,348
	337,775	667,587	668,793
LIABILITIES AND FUND DEFICIT			
Current			
Accounts payable and accrued liabilities	7,937	3,997	3,456
Current portion of loan payable (Note 6)	11,000	11,000	11,000
Claims payable	109,287	521,910	410,751
	128,224	536,907	425,207
Loan payable (Note 6)	133,309	136,861	140,243
	261,533	673,768	565,450
Fund surplus / (deficit) from operation	76,128	(6,181)	103,343
Accumulated Remeasurement Gains	114	-	-
Fund surplus / (deficit)	76,242	(6,181)	103,343
	337,775	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 Surplus
For the year ended March 31, 2012

	March 31, 2012 ($ '000)	March 31, 2011 ($ '000)
Revenue		
Premium revenue	106,847	57,419
Pension plan recoveries (Note 8)	12,384	4,444
Investment income (Note 5)	3,087	5,242
	122,318	67,105
Expenses		
Claims	29,973	166,472
Amortization of loan discount (Note 6)	7,447	7,618
Pension consulting services (Note 9)	2,064	1,797
Administration fee (Note 10)	480	508
Investment management fees (Note 10)	85	205
Unrealized loss (gain) on investments (Note 5)		71
	40,049	176,671
Recoveries of pension consulting services	(40)	(42)
Excess of revenue over expenses / (expenses over revenue)	82,309	(109,524)
Fund surplus / (deficit), beginning of year	(6,181)	103,343
Fund surplus / (deficit), end of year	76,128	(6,181)

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, 2012

	March 31, 2012 ($ '000)	March 31, 2011 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of revenue over expenses / (expenses over revenue)	82,309	(109,524)
Items not affecting cash:		
Unrealized (gain) loss on investments (Note 5)	-	71
Amortization of loan discount (Note 6)	7,447	7,618
Loss on disposal of investments (Note 5)	293	627
	90,049	(101,208)
Changes in non cash working capital		
Accounts receivable	(54,131)	(10,114)
Accounts payable and accrued liabilities	3,940	541
Claims payable	(412,623)	111,159
	(372,764)	378
Cash flows from investing activities		
Purchases of investments	(4,145,536)	(9,661,394)
Proceeds from sale of investments	4,529,300	9,672,016
	383,764	10,622
Cash flows from financing activities		
Loan repayments	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(0)	(0)
Cash position, beginning of year	1	1
Cash position, end of year	1	1

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Re-measurement Gains and Losses
For the year ended March 31, 2012

	March 31, 2012 ($ '000)
Accumulated re-measurement (losses), beginning of year	-
Unrealized Gains	114
Accumulated re-measurement gains, end of year	**114**

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.

The Fund is classified as a government not for profit organization for accounting purposes.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO in accordance with Public Sector Accounting Standards for not-for-profit organizations (PSA-NPO) as issued by the Public Sector Accounting Board (PSAB). This is the first time that the Fund has prepared its financial statements in accordance with PSA-NPO, having previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Included below are those accounting policies that are significance to the Fund. Details of how the transition from Canadian GAAP to PSA-NPO has affected the financial position and financial performance are disclosed in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Financial Instruments
The Fund follows PSA-NPO pertaining to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost.

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the statement of re-measurement gains and losses until realized. Fair value is determined from quoted prices for similar investments.

- Accounts receivable is valued at cost which approximates fair value given their short term maturities.

- Accounts payable and accrued liabilities are recorded at cost which approximates fair value given their short term maturities.

- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. 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 PSA-NPO 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. CHANGE IN BASIS OF ACCOUNTING

The Fund issued financial statements for the year ended March 31, 2011 using Canadian GAAP. The adoption of PSA-NPO resulted in no retroactive adjustments to previously reported financial statements. As at April 1, 2011, the Fund early adopted PS 3450, Financial Instruments and applied the measurement provision prospectively. The adoption of this standard resulted in the inclusion of the statement of re-measurement gains and losses in the current year financial statements. The prior year financial statements, including comparative information have not been restated.

5. 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.

Investments consist of:

	2012 ($'000)		2011 ($'000)	
	Fair Value	Cost	Fair Value	Cost
Discounted notes	210,731	210,731	441,671	441,671
Government bonds	22,354	22,374	175,357	175,491
	233,085	233,105	617,028	617,162

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 $293 thousand (2011 – realized loss of $627 thousand). Unrealized changes in the market value of investments are reflected separately on the statement of re-measurement gains or losses.

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

The market value sensitivity of the portfolio at the end of the last quarter was $400 thousand for a 1.00% change in rates.

Discounted notes with maturities between April 2012 and July 2012 have yields in the range of 0.926% to 1.150% (2011 – maturities between April 2011 and July 2011 and yields in the range of 0.918% to 1.180%).

Government bonds with maturities between April 2012 and June 2012 have yields in the range of 1.599% to 1.981% (2011 – maturities between May 2011 and November 2011 and yields of 1.299% and 2.052%).

6. LOAN PAYABLE

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 at an effective interest rate of 5.0368% to reflect its fair value outstanding as of March 31, 2012 as follows:

	2012 ($'000)	2011 ($'000)
Face Value	242,000	253,000
Less: Discount	(97,691)	(105,139)
Fair Value	144,309	147,861
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	133,309	136,861
Balance	144,309	147,861

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)
2013	7,269
2014	7,081
2015	6,883
2016	6,676
2017	6,458

7. FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables. The Fund considers this risk to be low.

The Fund's accounts receivable consists of premium revenue of $104.2 million, investment income of $276 thousand and the GST/HST receivable of $211 thousand.

The premium revenue receivable recorded is based on a one year projection time frame and the probability for a pension plan to become insolvent and not pay the premium within a year is very low. In addition, in the event that a pension plan would become insolvent within a year, there are legal options for the Fund that can be exercised to collect the premiums. Historically, the Fund has been able to collect the amounts estimated as premium receivable.

The risk of not collecting the investment income and the GST/HST receivable is considered to be minimal.

Liquidity Risk

The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities. As at March 31, 2012, the Fund had an investment balance of $233 million (2011 - $617 million) to settle current liabilities of $128 million (2011 - $537 million). In addition, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing assets in low-risk and liquid securities. The Fund's market risk is considered to be low.

8. 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 2012, $12,384 thousand (2011 - $4,444 thousand) in recoveries were made by the Fund.

9. 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 2012, $2,064 thousand was paid to such experts related to negotiations involving one company (2011 - $1,797 thousand involving one company).

10. RELATED PARTY TRANSACTIONS

For fiscal 2012, an administration fee of $480 thousand (2011 - $508 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 $85 thousand include fees of $78 thousand (2011 - $191 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 5 and 6.

11. MEASURES TO SUSTAIN THE FUND

Regulation 466/11which came into effect January 1, 2012, implemented changes to the Fund. The most significant changes brought about by this new legislation for pension plans entitled to make a claim are as follows:

- raising the base fee per Ontario plan beneficiary (active members, retired members and other beneficiaries) from $1.00 to $5.00
- raising the maximum fee per Ontario plan beneficiary in unfunded pension plans from $100.00 to $300.00
- eliminating the current $4 million assessment cap for unfunded pension plans
- introducing a minimum assessment of $250.00 for every pension plan covered by the Fund
- eliminating the current exemption for pension plans that are assessed $25.00 or less

The increased revenues resulting from these changes should enhance the sustainability of the Fund.

12. SUBSEQUENT EVENTS

The total recoveries of $20 - 25 million dollars are expected in 2012-13.