FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Financial Statements
For the year ended March 31, 2015

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Financial Position
As at March 31, 2015

	March 31, 2015 ($ '000)	March 31, 2014 ($ '000)
ASSETS		
Current		
Cash (overdraft)	(123)	1
Accounts receivable	62,014	124,088
Investments (Note 4)	480,768	450,237
	542,659	574,326
LIABILITIES AND FUND SURPLUS		
Current		
Accounts payable and accrued liabilities	4,449	11,044
Current portion of loan payable (Note 5)	11,000	11,000
Claims payable	33,840	50,916
	49,289	72,960
Loan payable (Note 5)	121,540	125,657
	170,829	198,617
Fund surplus from operation	371,687	375,717
Accumulated remeasurement gains (losses)	143	(8)
Fund surplus	371,830	375,709
	542,659	574,326

See accompanying notes to financial statements

Approved by:

Brian Mills
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, 2015

	March 31, 2015 ($ '000)	March 31, 2014 ($ '000)
Revenue		
Premium revenue (Note 3)	(536)	138,819
Pension plan recoveries (Note 7)	6,463	9,424
Investment income (Note 4)	5,283	4,389
	11,210	152,632
Expenses		
Claims	3,960	18,532
Amortization of loan discount (Note 5)	6,883	7,081
Pension consulting services (Note 8)	3,756	6,886
Administration fee (Note 9)	485	451
Investment management fees (Note 9)	155	130
	15,239	33,080
Excess (deficit) of revenue over expenses	(4,029)	119,552
Fund surplus, beginning of year	375,717	256,165
Fund surplus, end of year	371,687	375,717

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, 2015

	March 31, 2015 ($ '000)	March 31, 2014 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess (deficit) of revenue over expenses	(4,029)	119,552
Items not affecting cash:		
Amortization of loan discount (Note 5)	6,883	7,081
Losses on disposal of investments	492	116
	3,346	126,749
Changes in non cash working capital		
Accounts receivable	62,074	16,159
Claims payable	(17,076)	(27,823)
Accounts payable and accrued liabilities	(6,595)	210
	41,749	115,295
Cash flows from investing activities		
Purchases of investments	(3,258,352)	(3,633,576)
Proceeds from sale of investments	3,227,479	3,528,530
	(30,873)	(105,046)
Cash flows from financing activities		
Loan repayments	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(124)	(751)
Cash position, beginning of year	1	752
Cash (overdraft) position, end of year	(123)	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, 2015

	March 31, 2015 ($ '000)	March 31, 2014 ($ '000)
Accumulated re-measurement gains (losses), beginning of year	**(8)**	**5**
Unrealized losses attributed to portfolio investments	(341)	(129)
Realized losses reclassified to the statement of operations	492	116
Accumulated re-measurement gains (losses), end of year	**143**	**(8)**

See accompanying notes to financial statements

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the "Fund" or "PBGF") 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 pension benefits of certain defined benefit pension plans that are 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 CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act,* is responsible for the administration of the Fund, and the Fund reimburses FSCO for the costs of the services provided to the Fund. The investments of the Fund are managed by the Ontario Financing Authority, on a fee-for-service basis which is 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 Public Sector Accounting Standards for Government Not-For-Profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB). Accordingly, management has used the following significant accounting policies in their preparation.

(a) Financial Instruments

The Fund follows PSA-GNFPO accounting standards relating 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 as follows:

- 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, account payable and accrued liabilities are valued at cost which approximate 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 estimates of the 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 claim amounts can be reasonably estimated. Liabilities are also recognized when there is a high probability that 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 from estimates provided by 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.

(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.

The negative revenue for fiscal 2015 is due to an overestimation of premium revenue made during fiscal 2014. Better than estimated plan funding positions of these plans resulted in an overestimation of premium revenue.

	2015 ($'000)	2014 ($'000)
Estimated revenue	59,500	121,400
Actual revenue related to current and prior years received in current year	61,364	136,019
Less: prior year's estimated revenue	(121,400)	(118,600)
	(536)	**138,819**

(d) Use of Estimates

The preparation of financial statements in accordance with PSA-GNFPO accounting standards 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.

(e) Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the basis of the financial presentation adopted in the current year.

4. INVESTMENTS

As the administrator, investing the assets of the Fund, FSCO has established a Pension Benefits Guarantee Fund Management Committee. The Committee has developed a Statement of Investment Policies and Guidelines which is reviewed regularly and provides operational objectives, investment principles, policies and guidelines for the management of the investments.

Investments consist of:

	2015 ($'000)		2014 ($'000)	
	Fair Value	Cost	Fair Value	Cost
Discounted notes	273,097	273,097	443,819	443,819
Government bonds	207,671	207,528	6,418	6,426
	480,768	480,625	450,237	450,245

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities.

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 Money Market Portfolio at the end of the last quarter was $0.66M for a 1.00% change in rates. The market value sensitivity of the Government Bond Laddered Portfolio at the end of the last quarter was $0.85M for a 1.00% change in rates.

Discounted notes with maturities between April 2015 and July 2015 have yields in the range of 0.528% to 1.230% (2014 – maturities between April 2014 and July 2014 had yields in the range of 0.880% to 1.130%).

The government bonds maturing between December 2015 and December 2017 have yields in the range of 1.084 to 1.492% (2014 – maturing in October 2014 had yields of 1.515%).

5. LOAN PAYABLE

Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a $330M loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of $11M. 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 $55M.

The face value of this non-interest bearing loan has been discounted at an effective interest rate of 5.0368% to reflect its amortized cost outstanding as of March 31, 2015 as follows:

	2015 ($'000)	2014 ($'000)
Face Value	209,000	220,000
Less: Discount	(76,460)	(83,343)
Amortized Cost	132,540	136,657
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	121,540	125,657
Balance	132,540	136,657

The discount of $76.46M is amortized to loan discount expense over the term of the loan, based on the effective interest rate method. The amortization schedule for the subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2016	6,676
2017	6,458
2018	6,229
2019	5,989
2020	5,737

6. 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 receivable of $61.3M, investment income receivable of $0.7M and the HST receivable of $0.02M.

The premium revenue receivable recorded is based on an assessment formula set out in section 37 of Regulation 909 of the Act and is calculated as follows:

- Base assessment of $5 per Ontario plan beneficiary plus specified percentages of the plans PBGF assessment base;
- Maximum assessment of $300 per Ontario plan beneficiary; and
- Minimum assessment of $250 for each plan.

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 HST receivable is considered to be minimal.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its cash flow obligations as they fall due. The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities and the Fund's exposure is limited to the assets of the Fund including any loans or grants received from the Province. As at March 31, 2015, the Fund has an investment balance of $481M (2014 - $450M) to settle current liabilities of $49M (2014 - $73M). 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.

7. PENSION PLAN RECOVERIES

Following the settlement of all benefits, payment of expenses and the submission of the final wind up report, any remaining funds are recovered by the Fund. During fiscal 2015, the Fund had \$6.5M (2014 – \$9.4M) in recoveries. Approximately \$5.0M in recoveries is expected in the fiscal year 2016.

8. PENSION CONSULTING SERVICES

The Fund periodically engages the services of external experts to represent the Fund's interests in insolvency proceedings respecting employers who are unable to meet their funding obligations under the *Pension Benefits Act*. For fiscal 2015, \$3.8M was paid to such external experts (2014 - \$6.9M paid).

9. RELATED PARTY TRANSACTIONS

For fiscal 2015, an administration fee of \$0.5M (2014 - \$0.5M) 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 consist mainly of fees 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 note 5.

10. CONTINGENT LIABILITIES

There is currently a company operating under *Companies' Creditors Arrangement Act* protection whose pension plans could make significant claims on the Fund. As these potential claims remain at an early stage, an estimate of the claims which might be incurred, if any, cannot be determined.