

# Re: MM+P

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**From:** "Ghiassi, Ali (MOF)" <ali.ghiassi@ontario.ca>  
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**Date:** Sat, 22 Oct 2016 07:30:19 -0400

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One correction to my email: the \$1.5m impact under the 5 year historical avg happens to be roughly the same numerical impact under the FAO's model but not how he got to that number.

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On Oct 21, 2016, at 5:40 PM, Ghiassi, Ali (MOF) <[Ali.Ghiassi@ontario.ca](mailto:Ali.Ghiassi@ontario.ca)> wrote:

Hi Folks,

I wanted to provide you with an update on the FES MM+P materials following a briefing provided for Ministers Sousa and Sandals this afternoon in respect to this matter.

As you'll recall during FPC this week, we will be preparing three options for the Premier's consideration on Monday in respect to the treatment of the pensions assets in our fiscal plan. Option 1 and 3 have not materially changed since our discussion at FPC.

To recap:

Option 1 addresses the potential impact in the narrative only with a note that an ongoing independent review is under way. Under this option the potential impact of the pension asset could be presented below the line with illustration of the potential impact. Otherwise, our numbers are presented as is (\$4.1B deficit in 16-17, balance in each of 17-18 and 18-19).

Option 3 is on the other side of the spectrum whereby we address the full potential impact of the pension assets on a multi-year basis and identify tools that show how we accommodate such full impact. As we discussed, our numbers are presented as balance in the out years but with an increase in the deficit for in-year 16-17 by \$700M resulting in a deficit of \$4.8B, \$500M above our projections in Budget 2016.

The Ministers have asked for a revised Option 2 for the Premier's consideration.

At FPC, Option 2 incorporated half of the potential fiscal impact of the pension asset accounting change (ie. \$1.1B in 16-17, \$1.4B in 17-18 and \$1.9B in 18-19). Both Ministers felt strongly that this 50% discount option was too arbitrary and difficult to communicate such that it would not withstand sufficient scrutiny once tabled. Instead, our team at MOF/TBS sought a revised option 2 that incorporated a more principled basis for partial potential impact of the accounting change. This option, which the Ministers are comfortable with tabling for the Premier's consideration, is the 5 year historical average of the net fiscal impact of the accounting change. This option would increase the expense line by \$1.5B in each of 16-17, 17-18 and 18-19 offset by revenue and expense tools such that we can demonstrate a \$4.1B deficit in 16-17 and balance in the two out years. Ministers felt this was a more principled basis to provide for a potential impact that can more easily be communicated while still consistent with the narrative that the government is seeking independent advice on the proper treatment of the accounting asset.

Coincidentally, the \$1.5B annual fiscal impact under this revised option happens to also reflect how the FAO will portray the fiscal impact of the pension asset adjustment in his economic outlook scheduled for late October release.

We thought it was important for you to have a heads up of this development before Monday.

The MM+P materials are being revised as I write to reflect the Ministers' direction and will be sent to cabinet office within the next couple of hours.

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**Ali Ghiassi**

Chief of Staff

Minister of Finance

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