

Media Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 9, 2017

Key Messages:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans.
- The panel's report concluded that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The government is accepting the panel's recommendations, which will inform the preparation of the Province's future financial statements.
- For 2015-16, following the advice of the panel means Ontario's deficit would be lowered by \$1.5 billion.
- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly sponsored pension plans.
- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately. We are on track to balance the Budget by 2017-18, and remain balanced in 2018-19.

Prior to February 13 - Holding messaging for reactive use only:

- I can confirm that we have received the report from the Pension Asset Expert Advisory Panel.
- We are in the process of analyzing its findings, and having discussions with key stakeholders, so it would be inappropriate for me to comment at this time.
- It is unfortunate the report has been made public before the government could prepare it for public release.
- The government has every intention of formally releasing the full report to the public as soon as possible.

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If responding to stakeholder/public comment:

- We are disappointed that stakeholders are commenting on a report that has been made public before the government could properly prepare it for release.
- As I said, I can confirm that we have received the panel's final report.
- We are in the process of analyzing its findings, and having discussions with key stakeholders, so it would be inappropriate for me to comment at this time.
- The government has every intention of formally releasing the full report to the public as soon as possible.

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Top Media Qs&As:

1. It sounds like the government is fighting with the Auditor General again. What do you say to this?

This is not true from the government's perspective. In fact, we look forward to resolving our difference of opinion between the Province's professional accounting staff and the Auditor General's Office.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If asked to explain the history of this issue:

In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

From the government's perspective, the accounting treatment for jointly sponsored pension plans that Ontario used consistently since 2001 was and is still appropriate. Given the difference of opinion at the time, the Province filed a time-limited regulation, which legislated the accounting for pension assets of jointly sponsored pension plans for the 2015-16 Public Accounts only. This was consistent with the fiscal outcome proposed by the Auditor General.

Since the release of the Public Accounts, the government established a Pension Asset Expert Advisory Panel to provide independent advice on the interpretation of the accounting standards to Ontario's defined benefit pension plans. This panel has now provided its report on two of Ontario's jointly sponsored pension plans to the government and it has been shared with the Auditor General and the public.

The government will continue to move forward and present Ontario's finances fairly and accurately.

2. Are you saying the Auditor General is wrong?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional expert advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly sponsored pension plans.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

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3. This doesn't pass the smell test. Why should an average person on the street believe the government over an independent officer of the legislature?

Look, it's clear there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting.

Prior to implementing the Auditor's change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

In a case like this the government has a responsibility to get the best advice it can to inform decision-making. The panel was completely independent from government. It arrived at its advice based on its own analysis of this complex issue.

The panel members are highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards.

The government is accepting the expert panel's recommendations, which will inform the preparation of the Province's future financial statements.

4. The government picked the panel members and paid for their services. Some would say you simply bought the advice you wanted, when you didn't like what the Auditor General had to say. How do you respond?

The government has a responsibility to get the best advice it can to inform decision-making.

The panel was completely independent from government. It arrived at its advice based on its own analysis of this complex issue.

The panel members are highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards:

- **Tricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 since 2007,
- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP,
- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting, and

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- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, Ontario is ultimately responsible for deciding how to apply the accounting standards.

5. The panel doesn't have the authority to overrule the Auditor General, so what was the point of establishing it?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

In a case like this the government has a responsibility to get the best advice it can to inform decision-making. The panel members are highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards.

As a result of the independent panel's expert assessment, we now have additional advice on how public sector accounting standards are interpreted as they apply to jointly sponsored pension assets. We thank them for their work on this complex issue. Ontario is committed to acting on all of the panel's recommendations.

The panel's advice has also been shared with the Auditor General, and we look forward to further discussions in the hopes of reaching agreement on how the accounting standard is applied to Ontario's future financial statements.

6. The Auditor General claimed you used creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

For the 2015-16 Public Accounts, the government passed a time-limited regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General. The use of a time-limited regulation enabled the professional staff to take responsibility for the financial statements, while dealing with a very complex issue that warranted additional time to resolve.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General.

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7. What is the Province's new deficit figure for 2015-16? In the 2015-16 Public Accounts you said it was \$5 billion based on the Auditor General's math.

For 2015-16, following the advice of the panel means Ontario's deficit would be lowered by \$1.5 billion.

8. What does this mean for the upcoming Budget?

The 2017 Budget will reflect the appropriate accounting treatment for current net pension assets informed by the panel's report, including the Province's updated Interim numbers for 2016-17, as well as forecasts for the fiscal planning period.

We are on track to balance the budget by 2017-18, and remain balanced in 2018-19. We will provide a full update on Ontario's fiscal situation in the near future.

9. What will the government do if the Auditor General does not accept the panel's recommendations?

At the end of the day these are Ontario's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel's advice will help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. The Public Sector Accounting Board will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will provide input through the process set out by the board.

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice.

We remain on track to balance the budget by 2017-18, and remain balanced in 2018-19.

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10. Is the government going to restate the 2015-16 Public Accounts?

Our intention is to prepare future financial statements based on the panel's advice.

The panel's report concluded that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

If pressed:

We will not re-issue the 2015-16 Public Accounts, but in preparing the 2016-17 Public Accounts, we will follow the advice of the panel and also restate the 2015-16 comparative balances in that document to reflect that advice.

In addition, in other fiscal documents such as quarterly updates or budget documents, the 2015-16 balances will reflect the panel's advice.

11. Will you continue to accept qualified opinions in the future?

I cannot speculate on how the Auditor General will characterize her future audit work. That decision is up to her.

What I can say is we will continue to move forward and present Ontario's finances fairly and accurately. We remain on track to balance the budget by 2017-18, and remain balanced in 2018-19.

However, I would remind you that the audit opinion for 2015-16 was not qualified, but rather the Auditor General qualified her opinion for the 2014-15 comparative results which did not reflect the regulated accounting.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

12. The Auditor General says she also has a number of accounting opinions supporting her position. How do you respond to that?

We don't know who provided those opinions, what questions they were asked or what information they based their assessments on, so I can't comment on it.

In forming an opinion however; we can't overstate how important it is to consider all relevant facts. In that regard, we are pleased that the panel's report is being made public so that others will also have access to the same set of facts for further consideration.

The government has been fully transparent about the Pension Asset Expert Advisory Panel and how it arrived at its conclusions.

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Pension Asset Expert Advisory Panel and its report

13. In layman's terms what does the report mean?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly sponsored plans should continue to be recognized in Ontario's financial statements.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for two jointly sponsored pension plans - the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve the concerns, the Province's professional accounting staff and the Auditor General had differences of opinion.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly sponsored pension plans should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.

Ontario is committed to acting on all of the panel's recommendations. We will prepare future financial statements based on the panel's advice.

Ontario remains on track to balance the budget by 2017-18, and remain balanced in 2018-19.

14. What did the Pension Asset Expert Advisory Panel do?

The Pension Asset Expert Advisory Panel has delivered advice and recommendations to the government on the application of Public Service Accounting Standards to Ontario's net pension assets for two joint defined benefit pension plans – Ontario Teachers' Pension Plan and Ontario Public Service Employees' Union Pension Plan.

The panel agrees that the net pension asset for each plan should be recognized as part of the Province's financial position.

Recognizing the asset will provide a faithful representation of Ontario's financial position.

15. How did the panel reach its conclusions?

The panel received and reviewed background information, including the governing documents of the plans and related agreements. It also received analyses from both the government and the Auditor General, setting out their respective understanding of the facts and their conclusions.

The panel met with both the government's professional accounting staff and the Auditor General and her Public Accounts staff responsible for the pension issue to ensure the panel fully understood their thinking. The panel then performed its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members.

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16. Who was on the panel?

The membership of the Pension Asset Expert Advisory Panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans governance, actuarial modelling for pension plans and public sector accounting standards.

The panel included:

- Tricia O'Malley (Chair)
- Murray Gold
- Uros Karadzic and
- Paul Martin.

17. How much will they be paid? What was the total cost spent on this report?

The Chair will be compensated at \$2,000 per diem and \$1,900 per diem for the other members.

Panel members will also be reimbursed for reasonable expenses incurred in connection with their duties in accordance with Treasury Board/Management Board of Cabinet Directives and Guidelines.

The total amount the panel will be paid will be determined once their work is complete. According to the panel terms of reference, this is scheduled to end on March 31, 2017.

IF ASKED ABOUT PAUL MARTIN:

As a member of the public service of the Province of New Brunswick, Mr. Martin did not receive compensation. He was only eligible for expense reimbursements.

18. Were the panel's recommendations unanimous?

Yes, the panel's recommendations were unanimous.

19. Would you still have accepted the panel's recommendations if they weren't favourable to you?

I'm not going to speculate on something that didn't happen.

What I will say is that the panel took every effort to ensure that it had a complete understanding of the facts and studied this complex issue extensively. We are pleased that the panel's results are consistent with Ontario's view that net pension assets for jointly sponsored plans and should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.

20. How long have you had the report?

The panel submitted its final report to the government in early February. A draft report was submitted late January. We used this time to analyze the recommendations, and consult with key stakeholders, including the Auditor General.

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21. When you announced the panel in October 2016, you said the report was due to the President of the Treasury Board and the Auditor General of Ontario by the end of 2016. What happened?

When the panel was announced in October 2016, we had not yet identified the members. Once the panel was established, it was determined by the members that they would need additional time to conduct a thorough review of the issues at hand.

22. Your government keeps establishing panels to resolve your issues. Why can't you just make a decision?

The government has a responsibility to get the best advice it can to inform decision-making.

Pension accounting is a complex issue. We need the best advice in order to make well-informed decisions. Sometimes this means seeking independent expertise.

The Pension Asset Expert Advisory Panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards.

With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to jointly sponsored pension plans.

Auditor General

23. Have you spoken to the Auditor General about the panel's findings?

Yes. The panel sought input from the Auditor General as part of their research and deliberations. Prior to the release of the panel's report, they also shared a copy with the Auditor General's office and met with her to review their findings. Ministry officials also spoke with the Auditor General to discuss the panel's findings.

24. Do you think the Auditor General is being political in how she's handling this issue?

I can tell you that the government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

The panel's advice will help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

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2015-16 Public Accounts

25. How did the Auditor General want you to account for jointly sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing Public Sector Accounting Board standards, which would have impacted the Province's accounting for net pension assets of jointly sponsored pension plans.

The Auditor General's view is that the government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, according to the Auditor General, where there was no agreement in place to the contrary, the Auditor General believed that the net pension asset should be removed from the Province's balance sheet.

Since the difference of opinion could not be resolved, the government passed a regulation to allow us to report the net pension assets for jointly sponsored pension plans consistent with the Auditor's interpretation of the accounting standards.

26. Was there something wrong with the accounting rules the government was using before?

No. Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It had also been accepted by three previous Auditors General.

Ontario's strong track record of producing high-quality financial reports is also evidenced by the fact that the Province had clean audit opinions for 22 years before 2015-16.

We understand that the Auditor General's interest in the Province's accounting for net pension assets arose last summer as part of her review of pension related assumptions and the significant impact that the net asset position of the plans on the Province's fiscal results.

27. If the Auditor General has said the government needs to have unilateral control in order to recognize a pension asset for a jointly-defined benefit plan, what did the panel recommend?

This was one of the central issues on which the panel was asked to provide advice and recommendations to the government.

The panel's report aligns with the Province's position that unilateral control for jointly-defined benefit plans is not required in order for the net pension assets to be recognized in the Province's financial statements.

I'm not an accountant. But at a high level I can tell you that when it comes to dealing with a surplus in a jointly sponsored pension plan, the panel found that:

1. an asset does exist

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2. that asset should be recognized on the Province's books, and
3. unilateral control is not necessary to do so.

In fact, the panel noted that, by their very nature, unilateral control can't exist in joint pension plans because it is a joint arrangement. The sponsors jointly control the asset and must agree on how it will be used.

Deloitte

28. Media are reporting that Deloitte also provided you with advice, which you paid for. Was that advice biased, or were you in a conflict of interest because Ontario's chief controller used to work there?

Absolutely not.

Deloitte is a highly-reputable international accounting firm. They provided an objective accounting opinion, just as they would for any client. Their report was prepared using professional standards as set out by the Chartered Professional Accountants of Canada.

If you have further questions about Deloitte and how they approach their work, I would encourage you to contact them for comment.

29. It has been implied that your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

Broader Public Sector Executive Compensation Act

30. On one hand you're saying you're committed to balancing the budget. But on the other hand you're allowing massive pay increases at agencies like OPG and Metrolinx. How do you reconcile the two?

Affected salaries have been frozen across Ontario since 2012. Work is underway by our broader public sector organizations to establish salary caps based on appropriate comparisons to similar organizations.

As the Premier made clear last week, some proposed salary caps were completely unacceptable. While these proposed salary caps are **not** final salaries at this point, last week I issued a memo to remind employers about our expectations:

- Compensation programs will be modest, with low annual percentage increases.
- If the frameworks are not compliant with the regulation, we will direct the sector to redo the framework.

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- Employers will work with their overseeing ministries to ensure that salary caps are managed in a way that is fair and understood by the public.
- Once compliant frameworks are in place, we will monitor their implementation closely and will reject any salaries that we believe to be unacceptable.
- Employers will aim to provide the greatest transparency and information possible in their proposals.
- Employers will post their public consultations in a prominent place on their website.

The government is closely monitoring the rollout of this initiative and will take necessary action should an employer fail to develop a compliant compensation program.

Through this process, I expect that executive salaries will be reasonable and publicly defensible. If the government does not believe that standard is met, we will take further action to ensure that public dollars are spent in the public interest.

It is very clear that in some cases the upper end of proposed salaries are unreasonably high, and could potentially lead to unacceptable salary increases. That is why we have reminded employers of that, **and in cases where employers fail to comply, we will refuse salary increases.**

Every dollar of public money should be spent with good intention and consideration, and we will focus on ensuring that happens. It's what Ontarians expect.

Jointly sponsored plans and accounting standards

31. What is a jointly sponsored pension plan?

A joint defined benefit plan is a contractual arrangement between the government and another sponsor or sponsors representing plan participants

The Ontario Public Service Employees Union Pension Plan and Ontario Teachers' Pension Plan are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The sponsors have shared control over the retirement benefit plan, and ensure that neither party is in a position to control the plan unilaterally. The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

32. How do Ontario's plans compare to other jurisdictions, such as New Brunswick and British Columbia?

Pension accounting is a complex issue. Extensive research and analysis has been done internally comparing Ontario's plans to other jurisdictions. It should be pointed out that the pension plans for New Brunswick and British Columbia are different than Ontario's, therefore the accounting treatment is different.

With the help of the unique professional skillsets and perspectives of the members of the independent advisory panel, we now have additional expert advice on how

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public sector accounting standards should be interpreted as they apply to jointly sponsored pension plans in Ontario.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality reporting.

33. If the jointly sponsored plans are in surplus, is there a plan to reduce member contributions?

Reducing member contributions is something that would require discussion and agreement between both plan sponsors.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

Ontario's Financial Position

34. What do you say to the credit rating agencies who are watching all of this unfold?

We have been impressed with the level of cooperation and understanding of the credit rating agency community.

I would say we have achieved clarity on this complex accounting issue.

We remain on track to balance the Budget by 2017-18, and remain balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

35. Some have said your government has a spending problem, not a revenue problem. What do you say to that?

Even after adopting the Auditor General's interpretation of jointly sponsored pension plans in the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending.

The government continues to project a balanced budget by 2017-18 and to remain balanced in 2018-19, consistent with the *2016 Budget*.

Key elements of the government's plan to eliminate the deficit are:

- Making investments to spur economic growth,
- Transforming government and responsibly managing spending, and
- Ensuring revenue integrity and addressing the underground economy.

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36. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government is on track to balance the budget by 2017-18, and remain balanced in 2018-19. For 2015-16, following the panel's advice this means Ontario's deficit has been lowered by \$1.5 billion.

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

37. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

38. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track to balance the budget by 2017-18 and remain balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

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Technical Qs&As

- What issue does this report address?

The panel was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's pension plans. The need for this advice arose as a result of a difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General of Ontario during the 2015-16 Public Accounts audit.

- What is the report's conclusion?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly sponsored plans (Ontario Teachers' Pension Plan and Ontario Public Service Employees' Pension Plan) should be recognized in Ontario's financial statements.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly sponsored pension plans should continue to be recognized in the Province's financial statements as they have been since 2001 when the accounting standard was first adopted.

- What resources were used to arrive at this conclusion?

The panel received and reviewed background information, including the governing documents of the plans and related agreements. It also received analyses from both the government and the Office of the Auditor General, setting out their respective understanding of the facts and their conclusions.

The panel met with the government's professional accounting staff, other staff familiar with the two jointly sponsored pension plans, and the Auditor General and her Public Accounts staff to ensure the panel fully understood their understanding of the facts and accounting. The panel then performed its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members.

- The report supports Ontario's interpretation of the public sector accounting standards. Why?

The report agrees with the Province's application of the public sector accounting standards regarding the recording of the net pension assets for the jointly sponsored plans. The panel concluded that an asset exists because a resource exists with future economic benefit, the government controls access to that resource and the resource exists as a result of past transactions and events.

In addition, the panel agrees with the Province's conclusion that no reduction in value is required for either of the assets.

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Pension Asset Expert Advisory Panel Report

- The report disagrees with the Auditor General's interpretation of the public sector accounting standards. Why?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly sponsored pension plans. The panel does not specifically address the Auditor General's interpretation of public sector accounting standards; however, its conclusions differ from the AG based on its assessment and understanding of the facts.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

- Is the report's conclusion based on an accounting standard that hasn't come into effect yet?

While the Canadian public sector accounting standard addressing pension plans was introduced in 2001, not every possible situation can be covered by this accounting standard. In such cases, it is important to reference the conceptual framework and other standards both in Canada and internationally which may provide guidance. The supplementary sources referenced by the panel, including PSAB's recent standards on Assets, Contingent Assets and International Financial Reporting Standards have all proven relevant to the issue being considered. The Province appreciates the thoroughness of the panel in conducting its analysis of the pension asset recognition and measurement issues. The panel's reference to recent Canadian standard setter guidance, and international standards is appropriate in this circumstance.

- The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

The findings of the panel are consistent with the position taken by the government's professional accounting staff during the 2015-16 Public Accounts and consistent with the accounting treatment originally adopted by the Province in 2001 when the accounting standard was first implemented. Although the panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government reports on its books, the end result is the same and supports the government's historical accounting treatment for the net assets for the two jointly sponsored pension plans.

- Why is there a supplemental report to review other pension assets like the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan?

The plans (HOOPP and CAATPP) are multiemployer pension plans, and may move into a net pension asset position in the future. The government felt it was prudent to also review the accounting for this potential situation now given these plans differ in structure from the jointly sponsored pension plans that were the subject of the disagreement between the professional staff and the Auditor General.

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The Province will continue to review its accounting treatment as Public Sector Accounting Board standards change in the future.

- The Auditor General says we should recognize a net pension liability, but not the asset. Is this accurate?

For the Province to recognize a liability for its portion of a net pension liability but be unable to recognize an asset for its portion of a net pension asset would not faithfully represent the economic substance of a joint defined benefit plan whereby the risks and rewards of the plan are shared equitably between the joint sponsors. That said, you are correct that the AG's position would result in only the liability being reported except in very restrictive circumstances.

- What does it mean that a future benefit is available to the government?

Assets embody future economic benefits that allow a government to achieve its objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

- Please explain in more detail the concept of unilateral control.

By definition, a joint sponsor of a joint defined benefit plan cannot have unilateral control or unilateral rights over for example the surplus of the plan.

In a joint defined benefit plan, the sponsors share the risks and rewards of the plan. Key characteristics are: mutually agreed funding contributions, shared control over decisions related to the level of benefits and contributions and the equitable sharing of both positive and negative risks associated with the plan. The contractual arrangements for the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Pension Plan set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors.

The effect is that each sponsor individually has a veto right for fundamental changes to the plan or decisions that are made under the existing plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset.

Unilateral control of the timing and amount of surplus utilization for a joint defined benefit plan is not a requirement for asset recognition. An asset subject to joint control can be recognized under public sector accounting standards. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

The Province does not have unilateral control but does have control over its portion of the net pension asset either directly for the Ontario Public Service Employees' Pension Plan or via a veto for the Ontario Teachers' Pension Plan. That said, the panel has confirmed that unilateral control is not envisioned as a requirement under the accounting standards, and should not restrict the government from reporting its portion of the net assets for the jointly sponsored pension plans.