Thank you for the opportunity to review the draft Chapter 2 of your Annual Report and to provide management responses in relation to your recommendations. We have attached a marked up version of the report with detailed comments as well as our management responses.

On behalf of both Treasury Board Secretariat (TBS) and the Ministry of Finance (MOF), I have been asked to highlight some of our concerns with the Chapter. There are a few areas where we cannot provide factual clearance/concurrence.

In terms of the messaging described in Section 2.0, we believe the facts regarding Province's position on the pension asset accounting issue are not accurately reflected. To clarify, while efforts were made to reach a compromise that was acceptable to both parties, it was always the government's position that its reporting of pension assets was compliant with PSAB standards.

We disagree with the suggestion that the TBS/MOF position on the pension asset accounting issue was first communicated in the September 29th statements provided to your office, or on October 3rd when we released the unaudited financial statements. In August, TBS/MOF communicated the position that the assets were not impaired, and that a write down was not required (based on our interpretation of Public Sector Accounting Standards) when we provided the results of the actuarial assessments in response to a request by your office. Our position remained consistent throughout the audit as did our communications. As a result, we do not believe that the background section of Chapter 2 fairly presents the positions of both parties and would welcome further review of this section by your office.

Regarding the nature of the audit qualification, we suggest that the be clarified for the restatement of the prior period's results and not the 2015-16 results, including an accurate presentation of the government's position on why the prior year's results were not restated. In lieu of such clarification, our management response provides additional detail to ensure complete representation of the government's position.

Concerning the commentary on the release of unaudited financial statements in section 3.6, we would appreciate further review of this section to ensure it accurately reflects the government's communication of plans to release unaudited financial results. As indicated in the attached correspondence from the TBS Minister's Chief of Staff, the government signalled its intent to table unaudited financial statements based on the outcome of the meeting with you on the morning of October 3rd.

With regards to reporting by OPG and Hydro One on US GAAP, we have noted in the attached copy of Chapter 2, and reiterated in our response to your recommendations, that the entities do not report on US GAAP as a result of the Province's regulation, but rather as permitted by Securities Regulators. It would be our preference to ensure that this fact is accurately referenced in the document.

We have also comments in the attached version of Chapter 2 with regards to the suggestion that our discount rates for pension economic assumptions appear to be at the higher end of the reasonability range.

Finally, I understand that numerical inaccuracies have already been communicated to your office, including those related to the support for the debt section of the Chapter.

I would like to thank you again for the opportunity to review the draft Chapter 2, and for the opportunity to provide management responses for inclusion in the report. Please do not hesitate to contact me if you would like to discuss any of the matters noted above, or reflected in the attached documents.

Regards,

Karen