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June 23, 2017

MEMORANDUM TO: Rod Monette
Public Sector Accounting Board Chair

FROM: Cindy Veinot
Assistant Deputy Minister & Provincial Controller
Office of the Provincial Controller Division

SUBJECT: **Pension Asset Expert Advisory Panel Recommendations**

As you are aware, the Pension Asset Expert Advisory Panel released their report detailing independent accounting advice and recommendations to the government on how to apply public sector accounting standards to the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) in February 2017. A supplemental report by the panel was released in March 2017, providing additional recommendations on how to account for the potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

In their reports, the panel provided recommendations to the PSAB Employment Benefits Task Force. For your reference, we have extracted and attached these recommendations. We have also provided copies of the full reports.

If you have any questions, please feel free to contact me.

Regards,

Cindy Veinot

c. Nadine Petsche, Director, Accounting Policy and Financial Reporting, Office of the Provincial Controller Division
PSAB Employment Benefits Task Force Members

Pension Asset Expert Advisory Panel Report Extracts:
Recommendations to PSAB Employment Benefits Task Force

Recommendation from Report:

The Panel supports PSAB's initiative to review the current standard on employment future benefits. The Panel reached its conclusions on some issues only through an analysis considering other guidance and concepts in PSAS in addition to that found in PS 3250. This indicates that improvements to PS 3250 would assist governments and their auditors to apply PSAS requirements to defined benefit plans, including joint defined benefit plans, on a consistent basis. For example, the Panel noted that the deferral mechanisms in PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when PS 3250 is not clear on a particular issue or different interpretations could be made.

In particular, the Panel recommends that the following areas be considered by the PSAB Employment Benefits Task Force:

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.

The Panel also observed that there can be significant differences between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. The Panel also observes that significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. The Panel recommends that the PSAB Employment Benefits Task Force consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users.

Recommendation from Supplemental Report:

The Panel supports PSAB's initiative to review the current standard on employment future benefits, including the multiemployer guidance. The Panel recommends that the PSAB Employment Benefits Task Force consider the following areas when reviewing the accounting for jointly sponsored multiemployer plans:

- Enhancing the definition of a plan Sponsor and providing guidance as to whether an employer sponsor of a joint defined benefit plan must be a government or can be a broader public sector entity or industry association.
- Considering whether it is appropriate for a participant to use defined benefit accounting if the information to do so is available.
- Clarifying if a plan should be first assessed as a joint defined benefit plan and then as a multiemployer plan or the other way around.