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Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

January 28, 2017

Re: PSAB Invitation to Comment - Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255

Dear Mr. Puskaric,

We have read the above-mentioned Invitation to Comment that was issued November 2016 and are pleased to have the opportunity to provide responses to your specific questions as outlined below.

Overall, we believe the Board should focus on minimizing differences between PSAS and other national and international standards that deal with accounting for employee benefits where differences are not warranted. For example, across Canada some not-for-profit organizations such as universities and colleges are controlled by governments and follow PSAS, while others are in the private sector and follow accounting standards for non-for-profit organizations (ASNPO). Having employee benefit standards in PSAS that are similar to those in ASNPO would increase comparability among these organizations in the public sector with those in the private sector.

Additionally, government business enterprises (GBEs) currently apply International Financial Reporting Standards (IFRS) rather than PSAS and many GBEs have employee benefit obligations. Minimizing the differences between GBEs and the broader public sector should also be an objective as these entities are all part of various government reporting entities, so alignment of the employee benefit standards in PSAS with those in IFRS would achieve greater comparability between public sector entities as well.

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes, we agree that PSAB needs to consider whether the deferral provisions in the standards are still appropriate given that other national and international standard setters in the public and private sectors have moved away from this approach in the employee benefit standards they have issued. This would be consistent with our overall comment that the Board should aim to minimize differences between PSAS and other national and international standards.

2. *(a) Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?*

We believe that the changes related to current service cost, past service cost, interest cost on the obligation, plan curtailments and plan settlements should be considered separately from changes in actuarial assumptions and experience adjustments in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position. Such separation would be consistent with our overall comment that the Board should aim to minimize differences between PSAS and other national and international standards.

(b) Are there any additional components that should be separately identified and considered?

No, we do not believe there are any additional components of the changes in the value of the accrued benefit obligation that should be separately identified and considered.

3. *Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?*

We believe that breaking down the investment return component of the changes in plan assets into expected and unexpected return on investments is more appropriate for determining the accounting for changes in plan assets in the statement of operations and the statement of financial position. This breakdown would be consistent with our overall comment that the Board should aim to minimize differences between PSAS and other national and international standards.

4. *Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?*

No, we do not believe there are any other views that should be considered.

5. *Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?*

No, we do not believe there are any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered that have not already been identified in paragraphs .018-.065.

6. *Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?*

No, we do not believe there are any significant considerations that have not been identified in paragraphs .070-.091.

7. *Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?*

No, we do not believe there are any additional alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets that have not already been identified in paragraphs .092-.109 and .115-.120.

8. *Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?*

No, we do not believe there are any alternative amortization periods/bases that have not already been identified in paragraphs .110-.114.

9. *Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?*

No, we do not believe there are any additional alternatives for valuing plan assets that have not already been identified in paragraphs .121-.128.

10. *Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?*

No, we do not believe there are any significant arguments relating to any recognition alternatives in the statement of operations and statement of financial position or plan asset valuation options that have not already been identified in the paragraphs listed above.

11. *How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?*

We believe the changes in the value of the accrued benefit obligation resulting from:

- Current service cost, past service cost, interest cost on the obligation, plan curtailments and plan settlements should be immediately recognized in annual surplus/deficit when they arise.
- Actuarial assumptions and experience adjustments should be recognized outside of annual surplus/deficit (i.e. as part of accumulated surplus/deficit) when they arise with no recycling in subsequent periods.

We believe the changes in the value of plan assets related to:

- Expected returns, administrative costs and plan settlements should be immediately recognized in annual surplus/deficit when they arise.
- Unexpected returns should be recognized outside of annual surplus/deficit (i.e. as part of accumulated surplus/deficit) when they arise with no recycling in subsequent periods.

Contributions and benefit payments only impact the net benefit liability/asset on the statement of financial position and are equal to the cash consideration paid.

This approach would be consistent with our overall comment that the Board should aim to minimize differences between PSAS and other national and international standards.

12. *On what basis should plan assets be valued?*

We believe plan assets should be valued at market value. We do not see any benefit of measuring plan assets at market-related value besides smoothing which we do not believe is appropriate or consistent with our overall comment of minimizing differences. We also believe the new standards should use the terminology fair value instead of market value to maintain consistency with the terminology used in Section PS 3450, *Financial Instruments*.

13. *Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.*

The majority of our clients measure their plan assets at market value. As mentioned above we do not believe plan assets should be measured at market-related value.

14. *What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.*

We have clients who immediately recognize actuarial gains and losses arising from post-employment benefits and compensated absences that do not vest or accumulate and we also have clients who defer them. As auditors we evaluate our client's accounting policies to determine whether they are in compliance with the standards. We cannot comment on why our clients choose a specific accounting policy.

15. *Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?*

We believe one consideration PSAB should keep in mind when working on Phase II of this project is how to best structure the new standard so it is responsive to the fact that new actuarial products / plans are being developed.

16. *Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?*

As auditors we are not in a position to participate in such tests. However, we believe some of our clients would be interested in participating future field tests.

Thank you for your consideration of the above-noted responses. If you have any further questions, please contact me at 416-369-6937.

Yours sincerely,



Armand Capisciolto, CPA, CA
CPA (Michigan)
National Accounting Standards Partner
BDO Canada LLP

Formulaire de réponse
Pour être pris en considération,
les commentaires doivent être reçus au plus tard
le 3 mars 2017.

Avantages sociaux : dispositions relatives au report énoncées dans les chapitres SP 3250 et SP 3255

Appel à commentaires

Le CCSP invite les intéressés à formuler des commentaires sur tous les aspects de l'appel à commentaires.

Ce formulaire ne vise pas à restreindre votre réponse. Chaque boîte de texte acceptera l'intégralité de vos commentaires.

Vous pouvez sauvegarder le formulaire et l'envoyer, pour examen, à d'autres personnes de votre organisation avant de le soumettre.

Nom : Manon Tremblay

Organisation : COMAQ

Courriel : manon.tremblay@ville.lorraine.qc.ca

Commentaires généraux :

Nécessité d'examiner les dispositions relatives au report

1. Êtes-vous d'accord qu'il est nécessaire que le CCSP examine si les dispositions relatives au report énoncées dans les normes sont appropriées?

Nous sommes d'accord pour réviser les dispositions relatives au report car actuellement le lissage de l'actif et l'amortissement des gains/pertes actuarielles ne présente pas une donnée fiable à l'état de la situation financière (on peut présenter un actif alors que le régime est en déficit).

Composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

- 2a. Parmi les composantes des variations de la valeur de l'obligation au titre des prestations constituées présentées au tableau 2 et aux paragraphes .015 à .056, certaines devraient-elles être prises en considération séparément aux fins de l'établissement de la méthode de constatation des variations de la valeur de l'obligation au titre des prestations constituées dans l'état des résultats et dans l'état de la situation financière, et si oui, lesquelles?

On ne devrait pas traiter séparément les composantes des variations de l'obligation au titre des prestations constituées

puisque l'on amènerait une grande complexité pour peu de résultat. Bien que certaines composantes reflètent un événement passé, leur volatilité demeure et un événement futur en sens inverse peu l'annuler dès l'année suivante.

2b. Y a-t-il d'autres composantes qui devraient être prises en considération séparément?

3. Laquelle des façons de ventiler la composante «rendement des placements» des variations de la valeur des actifs du régime présentées aux paragraphes .057 à .065 est la plus appropriée aux fins de l'établissement de la méthode de constatation des variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

Nous recommandons la ventilation selon le rendement prévu et imprévu (en gros comme l'actuel). Un gain/perte non réalisé demeure pertinent car il s'agit d'un fait à la date des états financiers. Les variations subséquentes du marché affecteront autant les gains réalisés (investis dans un autre actif) que les gains non réalisés.

4. Y a-t-il d'autres façons de ventiler la composante «rendement des placements» des variations de la valeur des actifs du régime qui devraient être prises en considération aux fins de l'établissement de la méthode de constatation des variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

5. Y a-t-il des aspects des composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime qui devraient être pris en considération aux fins de l'établissement de la méthode de constatation de ces variations dans l'état des résultats et dans l'état de la situation financière et qui ne sont pas mentionnés aux paragraphes .018 à .065?

Autres méthodes et questions non relevées

6. Y a-t-il des questions importantes à considérer pour déterminer la méthode de constatation de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .070 à .091?

7. Y a-t-il des méthodes possibles de constatation des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .092 à .109 et .115 à .120?

8. Y a-t-il des périodes d'amortissement ou bases d'amortissement possibles aux fins de l'application de la méthode de la constatation reportée qui ne sont pas mentionnées aux paragraphes .110 à .114?

9. Y a-t-il des méthodes possibles d'évaluation des actifs du régime qui ne sont pas mentionnées aux paragraphes .121 à .128?

10. Y a-t-il des arguments importants relatifs à l'une ou l'autre des méthodes possibles de constatation dans l'état des résultats (paragraphes .092 à .109) ou dans l'état de la situation financière (paragraphes .115 à .120) ainsi que des méthodes possibles d'évaluation des actifs du régime (paragraphes .121 à .128) dont les paragraphes mentionnés ne font pas état?

Traitement comptable de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

11. Comment chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime devrait-elle être constatée dans l'état des résultats et dans l'état de la situation financière?

Recommandation de traitement comptable.

Obligations au titre des prestations constituées :

Constat immédiat des variations aux résultats car il s'agit d'événement passé qui répondent à la notion d'actif ou de passif (réf. paragraphe .094 du document). C'est pas parce que c'est volatil qu'on ne doit pas le comptabiliser. Puisque nous sommes des organismes publics avec obligation de budgets équilibrés, il faut gérer la volatilité par un outil comme les DCTP (amorti sur DMERCA pour amortir sur durée du service rendu par les employés) et présenter l'information sur la volatilité en note aux états financiers s'il y a lieu.

Constat à l'état de la situation financière sans ajustement à liées aux variations. On doit présenter le passif à la date des états financiers même s'il est volatil.

Actifs du régime

Constat immédiat des variations aux résultats car il s'agit d'événement passé qui répondent à la notion d'actif ou de passif. C'est pas parce que c'est volatil qu'on ne doit pas le comptabiliser. Il faut gérer la volatilité par un outil comme les DCTP et présenter l'information sur la volatilité en note aux états financiers s'il y a lieu.

Constat à l'état de la situation financière de la valeur au marché. On doit présenter l'actif à la date des états financiers même s'il est volatil.

12. Quelle devrait être la base d'évaluation des actifs du régime?

Évaluation des actifs

À la valeur au marché seulement. On doit présenter l'actif à la date des états financiers même s'il est volatil.

Méthodes comptables actuelles

13. Évaluez-vous les actifs du régime à la valeur de marché ou à une valeur liée au marché? Si vous avez recours à une valeur liée au marché, expliquez comment elle est établie.

Actuellement, on utilise la méthode du lissage de l'actif sur 5 ans ou 3 ans selon les municipalités ayant répondu

14. Quelle méthode comptable appliquez-vous pour la constatation des gains et pertes actuariels (constatation reportée ou immédiate) liés aux avantages postérieurs à l'emploi et aux congés rémunérés qui ne s'acquièrent pas ou ne s'accumulent pas? Expliquez pourquoi cette méthode a été choisie.

Questions non relevées quant au projet

15. Y a-t-il des questions particulières liées aux chapitres SP 3250 et SP 3255 qui ne sont pas relevées dans la section «Aperçu général du projet» (page ii) et que le CCSP devrait examiner dans le cadre du projet?

Participation à d'éventuels projets pilotes

16. Voudriez-vous participer à d'éventuels projets pilotes, qui pourraient comprendre l'utilisation de données réelles sur des régimes d'avantages pour déterminer les conséquences financières de diverses méthodes?

Cliquez ici pour soumettre

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255
Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name:

Organization:

E-mail:

General comments:

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

I agree that there is a need to review the deferral provisions especially considering there have been changes not only to employee benefit plans used by the public sector but also other international accounting standards that have introduced standards with differing opinions.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

The components of changes in value identified should all be considered together in determining the accounting for the changes.

- 2b. Are there any additional components that should be separately identified and considered?

None that I would consider.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

The view of realized and unrealized gains and losses is the most appropriate to break down the investment return component as this is consistent the current PSAB framework.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

None that I would consider.

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

None that I would consider.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

The only additional consideration would be to consider how the accounting standard change would impact the understandability of the financial statements from the point of view of each stakeholder of the financial information, in particular the general public that has a limited understanding of accounting principles. It is important to keep the general public in mind when considering standards that will significantly impact their ability to interpret how a public sector entity is performing.

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

None that I would consider.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

None that I would consider.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

None that I would consider.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

None that I would consider.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

The components should be recognized in the statement of operations using the "No recognition (no recycling)" alternative. This would result in no recognition of unamortized actuarial gains and losses on the statement of financial position.

Response for the next question (#12) would be that Market Value should be the basis that plan assets be valued at.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Plan assets, if any, are measured at market value.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Currently our plan does not include post-employment benefits and compensated absences that do not vest or accumulate.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

None that I can identify.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Not at this time.

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Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Accounting for Pension Assets under PSAS

Topics of Discussion

1. Introductions
2. Background and Key Facts
3. Recognition of Accrued Benefit Asset (ABA)
 - a. Control over Plan Assets
 - b. Control over Benefits from Accrued Benefit Assets
4. Measuring the Limit on Carrying Value of ABA
5. Applicability of Other Sections of PSAS
 - a. PS 3320, Contingent assets
 - b. PS 3060, Government partnerships
6. Upcoming PSAS Guidance



2. Background and Key Facts

- Province of Ontario uses Public Sector Accounting Standards (PSAS) to prepare its consolidated financial statements
- Fiscal 2015/16 pension accounting issue related to Ontario Teachers' Pension Plan (OTPP) and Ontario Public Sector Employees Union Pension Plan (OPSEUPP)
- OTPP and OPSEU are joint defined benefit plans under PS3250
- Plan members and the province (sponsors) jointly share 50% of the responsibility for their respective plans
- No individual sponsor has the authority to make unilateral decisions relating to plan structure, benefits, plan amendments, sponsor contribution rates, and funding shortfalls and surpluses.



2. Background and Key Facts (Cont'd)

- Both plans are in an accrued benefit asset position as at March 31, 2016, before considering any valuation allowance:
 - \$10.1 billion for OTPP; \$520 million for OPSEUPP
- Total employee and employer contributions > total current service cost for fiscal 2015/16, for each plan
- Access to plan assets by taking contribution holidays or withdrawing plan surplus are subject to written agreements between the sponsors being in place.
 - No such written agreements between sponsors in place as at March 31, 2016.



3a. Recognition of ABA – Control over Plan Assets

- A **plan asset** is an asset segregated and restricted in a trust or other legal entity separate from the reporting government to provide for retirement benefits . . . (PS 3250, Glossary)
- For OTTP and OPSEUPP, the government's accumulated contributions have been paid into separate legal entities that the government does not control.
- **The government does not have control over the plan assets themselves.**



3b. Recognition – Control over Benefits

Summary of Accounting Guidance – Valuation Allowance

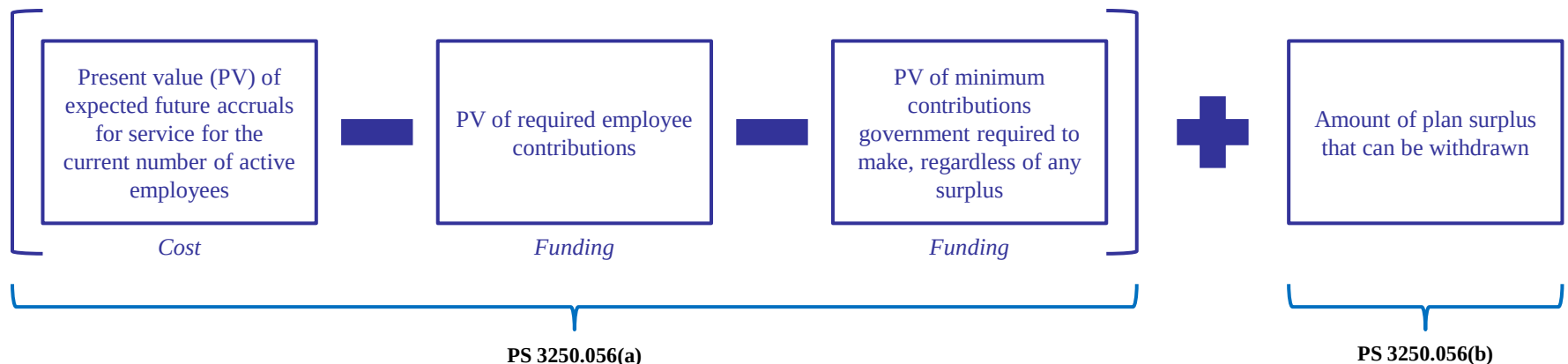
- An **accrued benefit asset (ABA)** arises when total contributions by the sponsors of a defined benefit plan are greater than all pension expense since the plan's inception.
- **PS 3250.50**—requires a government with an ABA to recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit.
- **PS 3250.052**—states an ABA may be impaired for accounting purposes if the government is not entitled to benefit fully from the plan surplus when there are uncertainties relating to a government's legal rights to use a plan's accounting surplus.



3b. Recognition – Control over Benefits (Cont'd)

Summary of Accounting Guidance (Cont'd) – Benefit Sources

- **PS 3250.052**—specifies that a government may benefit from an accrued benefit asset either by: (1) withdrawing surplus assets, (2) taking a contribution holiday, or (3) receiving a refund of contributions.
- **PS 3250.56**—prescribes formula to measure/calculate expected future benefit:



3b. Recognition – Control over Benefits (Cont'd)

Summary of Accounting Guidance (Cont'd) – EFB Restrictions

- **PS 3250.059**—With respect to determining a government's expected future benefit (EFB), provides three key concepts:
 - i. ability of the government to withdraw assets is key
 - ii. anticipation of obtaining legally enforceable rights of withdrawal is not permitted, whether on the basis of precedent or otherwise
 - iii. expected future benefit flowing from legally enforceable rights as at the financial reporting date cannot be subject to obtaining required approvals from employees, a regulator, or a court of law.



3b. Recognition – Control over Benefits (Cont'd)

Expected Future Benefit—Surplus Withdrawal

- Pension Benefits Act, Teacher's Pension Act and OPSEUPP plan text either prohibit surplus withdrawals or require negotiation of surplus withdrawals between co-sponsors.
- The province cannot anticipate or obtain a legally enforceable right to withdraw a portion of a plan surplus until it strikes a negotiated agreement between the joint sponsors and receives approval from the Financial Services Commission of Ontario.
- **Since such agreements and approvals were not in place as at March 31, 2016, there was no expected future benefit from any surplus withdrawal to measure under PS 3250.056(b).**



3b. Recognition – Control over Benefits (Cont'd)

Expected Future Benefit—Contribution Holidays/Refunds

- The context of a joint defined benefit plan makes the key concepts in PS 3250.059 equally relevant when considering expected future benefits from contribution holidays/refunds.
- The government's role as a joint sponsor means it is denied the ability to unilaterally change the terms of either plan to establish access to a benefit, until a negotiated agreement is reached.
- **Since such agreements were not in place as at March 31, 2016, there was no expected future benefit from any contribution holidays or refunds to measure under PS 3250.056(a).**



4. Measurement—Limit on Carrying Value of ABA

Present Value of Expected Future Accruals for Service

Based on guidance and our views, any calculation of future service costs should have all of the following characteristics:

- Future service cost estimated on a basis consistent with that used to determine the associated accrued benefit obligation
- The interest rate used to calculate present value is the same rate used to determine the benefit expense in the period
- All estimates are consistent with the jointly agreed upon benefits and contributions at the year-end date
- The period of extrapolation and discounting should be consistent with the nature of the plan (i.e. perpetuity is possible)



4. Measurement—Limit on CV of ABA (Cont'd)

Present Value of Required Minimum Contributions

Based on guidance and our views, any calculation of future service costs should have all of the following characteristics:

- Minimum contributions are reflective of current levels of baseline contributions and the terms of agreement(s) in place at the year-end date
- The interest rate used to calculate present value is the same rate used to determine the benefit expense in the period
- The period of extrapolation and discounting should be consistent with the time period used to calculate the present value of expected future accruals for service



4. Measurement—Limit on CV of ABA (Cont'd)

For fiscal 2015/16, total employee and employer contributions exceeded current service cost for each plan.

If it is also assumed that:

- contributions and service cost levels continue into the foreseeable future; and
- total contributions and service cost are extrapolated and discounted over the same time period at the same discount rate

then, for the year ended March 31, 2016, any calculation under PS 3250.056 results in a **negative net present value** for both plans, **requiring a full valuation allowance on the basis of measurement** of the limit on the carrying value of the asset.



5a. Other PSAS Standards – Contingent Assets

- PS 3320.03—notes that contingent assets arise from conditions or situations involving uncertainty
- Notion of uncertainty is present in paragraph PS 3250.052
- Even in the case where the future confirming event is likely, PS 3320 requires note disclosure of the asset
- **For the year ended March 31, 2016, we believe that note disclosure of the pension asset was appropriate.**
- Note disclosure requirement is also consistent with treatment of pension assets in the audited consolidated financial statements for the provinces of British Columbia (in prior years) and New Brunswick (fiscal 2015/16).



5b. Other PSAB Standards – Government partnerships

- PS 3060.06—“A government partnership is not a government organization but is a contractual arrangement between the government and **a party or parties outside of the government reporting entity...**” [emphasis added]
- The term “government reporting entity” above is footnoted as follows: “In arrangements **where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity** for the purposes of applying the definition of a government partnership.” [emphasis added]



5b. Other PSAB Standards – Government partnerships (Cont'd)

- OPSEU represents active and retired provincial government employees.
- OTPP also represents active and retired provincial government employees (school boards are considered part of the province's reporting entity).
- **Both OPSEUPP and OTPP fall outside the scope of PS 3060.**



6. Upcoming PSAS Guidance

Section PS 3210, Assets

- Applies to fiscal years beginning on or after April 1, 2017.
- Paragraph .04—Assets have three essential characteristics:
 - a) They embody future economic benefits that 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.
 - b) The public sector entity can control the economic resource and access to the future economic benefits.**
 - c) The transaction or event giving rise to the public sector entity's control has already occurred.
- Paragraph .05—Economic resources are not assets unless they meet the three characteristics of assets.



6. Upcoming PSAS Guidance

PSAB Invitation to Comment – Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255

- Under conceptual considerations pertaining to recognition:

Paragraph .076—Assets are defined as economic benefits controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained. Plan assets, in excess of the accrued benefit obligation and valuation allowance for impairment, represent the future economic benefit the entity expects to realize from a plan surplus **and has access to at the financial statement date.** The future economic benefit includes any withdrawable surplus or reduction in future contribution.



Thank you



Memo

A. Purpose

The purpose of this memo is to summarize the Office's view on the criteria required to be met for a net pension asset to be recognized and on how such an asset should be measured.

B. Background and Facts

The province of Ontario prepares its consolidated financial statements in accordance with the accounting standards issued by the Public Sector Accounting Board (PSAB) of Canada. This memo addresses the issues relating to Ontario Teachers' Pension Plan (OTPP) and Ontario Public Sector Employees Union Pension Plan (OPSEUPP) relying on the following facts:

1. OTPP and OPSEUPP meet the definition of a joint defined benefit plan under PS 3250, Retirement benefits.
2. The plan members and the province (sponsors) jointly share 50% of the responsibility for their respective plans. In the case of both pension plans, no individual sponsor has the authority to make unilateral decisions related to the following:
 - a. plan structure,
 - b. plan amendments,
 - c. determining member benefits,
 - d. establishing the contribution rate to be paid by sponsors,
 - e. addressing any funding shortfalls, and
 - f. using plan surplus, if any.
3. From the province's perspective and reflecting its share of the plans, both plans are in an accrued benefit asset position (\$10.1 billion and \$520 million as at March 31, 2016 for OTPP and OPSEUPP, respectively, before considering any valuation allowance).
4. As at March 31, 2016, both pension plans have net unamortized actuarial gains and therefore, the accrued benefit asset is equal to the adjusted benefit asset under PS 3250.
5. For the year ended March 31, 2016, total employee and employer contributions exceeded current service cost earned by employees for each plan as a whole.
6. Access to plan assets in the form of taking contribution holidays, receiving contribution refunds, or withdrawing plan surplus are subject to written agreements between the sponsors being in place. These are existing legislative and contractual requirements.

7. As at March 31, 2016, there were no written agreements between the sponsors to provide the province with access to the plans' surpluses.
8. The accounting standards for joint defined benefit plans, i.e. PS 3250, Retirement benefits, were used to develop our view. Relevant excerpts from PS 3250 are included in Appendix A for reference.

C. Discussion—Recognition of an Accrued Benefit Asset under PS 3250

The Public Sector Accounting Handbook is constructed on a framework of the basic definitions of assets, liabilities, revenue and expense outlined in PS 1000, Financial statement concepts. The individual Handbook Sections are then created as guidance for applying these definitions in various circumstances consistent with this framework.

PS 3250 is an extension of those definitions. For example, PS 3250.015 identifies the past transaction or event inherent in the definition of a liability that gives rise to the liability associated with a retirement benefit plan.

The definition of a retirement benefit liability associated with a defined benefit plan indicates that measuring the liability is, essentially, the net difference between the liability (the obligation that has accrued based on employee rendering services) associated with the retirement benefits and any plan assets that have accrued (the contributions made into the plan to fund the obligation, plus investment returns on accumulated assets).

C.1. Control over Plan Assets

Plan contributions are considered to be plan assets when the government places those contributions into a separate fund. Consider the definition of a plan asset as set out in the Glossary to PS 3250:

A **plan asset** is an asset segregated and restricted in a trust or other legal entity separate from the reporting government to provide for retirement benefits under the following conditions:

- (a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and
- (b) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

For purposes of this Section, plan assets do not include amounts held by the government and not yet paid into the trust or other legal entity.

Note that part a) of the definition is in place to avoid a government from simply allocating assets within its own entity to its pension liability that are not segregated or restricted.

In other words, the government must have given control over the economic benefits inherent in the assets to another entity. A separate entity could include the pension plan, trustee or other entity

appointed to administer the asset. A plan asset, for the purposes of the plan and for accounting purposes must meet the definition of an asset to begin with, but the asset must also be set aside in a separate entity at which point, the government gives up control over the asset.

In the case of OTPP and OPSEUPP, the government's accumulated contributions have been paid into separate legal entities that the government does not control. Therefore, the government does not have control over the plan assets themselves.

C.2. Control over Benefits from Accrued Benefit Assets

C.2.1 Summary of Accounting Guidance

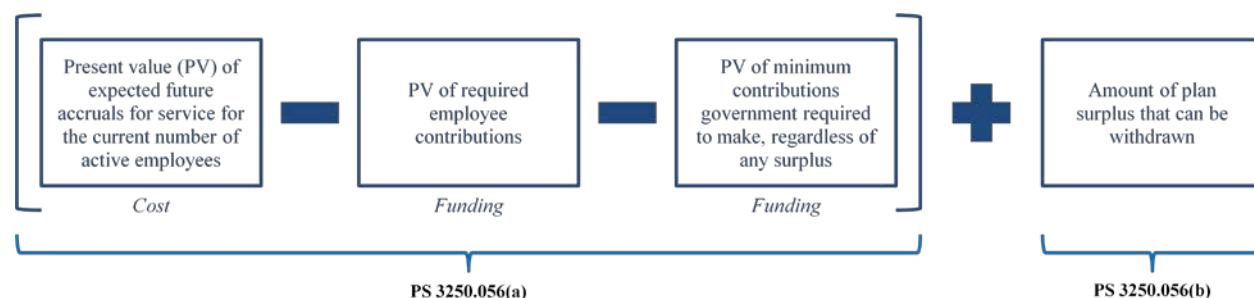
Paragraph PS 1000.35 defines assets as economic resources controlled by a government as a result of past transactions or events from which there is an expectation of obtaining future economic benefits.

An accrued benefit asset arises when total contributions by the sponsors of a defined benefit plan (plus interest income) are greater than all pension expense since the plan's inception (i.e. it is a result of past transactions or events).

Consistent with the definition of an asset, paragraph PS 3250.50 requires a government with an accrued benefit pension asset to recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. Both OTPP and OPSEUPP have net unamortized actuarial gains and therefore, the accrued benefit asset is equal to the adjusted benefit asset as at March 31, 2016.

Paragraph PS 3250.052 specifies that a government can benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. It further explains that an accrued benefit asset may be impaired for accounting purposes if the government is not entitled to benefit fully from the plan surplus when, for example, there are uncertainties relating to a government's legal rights to use a plan's accounting surplus.

With respect to measuring expected future benefit, paragraph PS 3250.56 prescribes a formula that can be represented as follows:



Consistent with paragraph PS 3250.052, the formula in paragraph PS 3250.056 restricts a sponsor to two sources from which to calculate expected future benefits from an accrued benefit asset: (1) reductions (i.e. holiday or refund) in future required minimum contributions to the plan, and/or (2) withdrawals of surplus funds from the plan trusts.

C.2.2 Expected Future Benefit—Surplus Withdrawal

One source of expected future benefit the province may expect from its accrued benefit asset is any amount of pension surplus that it can withdraw in accordance with the existing plan and any applicable laws and regulations.

PS 3250.059 indicates that a key factor in determining a government's expected future benefit from a defined benefit plan with a surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The paragraph goes on to say that the expected benefit includes those amounts that a government has a legally enforceable right to withdraw. Further, a government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when a withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government is required to exclude any amount subject to this restriction from its expected future benefit until such approval has been granted.

The Pension Benefits Act governs both plans, as they are registered in Ontario. Subsection 77.11(2) indicates that "A pension plan that does not provide for the withdrawal of surplus money while the pension plan continues in existence shall be construed to prohibit the withdrawal of surplus money accrued after December 31, 1986. 2010, c. 24, s. 26 (1)."

In this respect, subsection 10(1) of the Teacher's Pension Act also indicates:

The Minister of Education [MoE] and the executive of the Ontario Teachers' Federation [OTF] may enter into an agreement that provides for the following matters . . . 3. The sharing of entitlements to gains and surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members.

Similarly, yet more restrictive, section 6.4 of the plan text of the OPSEUPP provides, "No surplus shall be paid out of the Fund to any employer."

Therefore, there must be a clear negotiated agreement between the joint sponsors and the approval of the Superintendent of the Financial Services Commission of Ontario before the province can anticipate or obtain a legally enforceable right to withdraw a portion of a plan surplus. Since such agreements and approvals were not in place as at March 31, 2016, there is no expected future benefit from any surplus withdrawal to measure under PS 3250.056(b).

C.2.3 Expected Future Benefit—Contribution Holidays/Refunds

In both the case of OTPP and OPSEUPP, the province's contributions to the plan are based on the contributions made by the members of the plan, since the province is required to match these contributions on a 1:1 basis. Since the expected future benefit from surplus withdrawal is nil, the province's ability to use its share of the plans' accounting surplus is entirely dependent on its ability to take a contribution holiday from or receive a refund on its minimum contributions.

Paragraph PS 3250.059 primarily addresses the legally enforceable right of withdrawal of plan surplus by the government, but also informs the concepts in paragraphs PS 3250.052 and PS 3250.055 that

deal with entitlement to the benefit more generally. With respect to determining a government's expected future benefit, the key concepts in paragraph PS 3250.059 are:

1. The ability of the government to withdraw assets is a key factor in determining expected future benefit from a plan surplus.
2. Anticipation of obtaining legally enforceable rights is not permitted, whether on the basis of precedence or otherwise.
3. Benefits flowing from legally enforceable rights as at the financial reporting date cannot be subject to obtaining required approvals from employees, a regulator, or a court of law.

We have considered the view that paragraph PS 3250.059 should be read as pertaining exclusively to the withdrawal of surplus from a plan, and thus should not be considered when determining expected future benefit from contribution holidays or refunds, the other two sources of benefit identified by paragraph PS 3250.052.

However, in our view, the context of a joint defined benefit plan makes the key concepts in paragraph PS 3250.059 equally relevant when considering expected future benefits from contribution holidays and refunds. In these two cases, the government's role as a joint sponsor means it is denied the ability to unilaterally change the terms of either plan to establish access to a benefit.

As is the case with surplus withdrawals, the government cannot benefit from any future economic benefit in the form of contribution holidays or refunds because it cannot control access to any of the benefit until such changes are reflected in a negotiated agreement between the joint sponsors. Since such agreements were not in place as at March 31, 2016, it follows that there is no expected future benefit from any contribution holidays or refunds to measure under PS 3250.056(a).

C.3 Recognition of an Accrued Benefit Asset under PS 3250

The overall objective of PS 3250 is to limit the carrying amount of an accrued benefit asset to the amount of benefit a government can access in the form of withdrawing surplus assets or taking contribution holidays or receiving contribution refunds, rather than a change in the level of benefits for plan members.

The paramount factor for the province in its determination of whether it requires a valuation allowance is the province's inability to access the benefits from the accrued benefit asset until the co-sponsors of OTPP and OPSEUPP agree. For these joint-sponsor pension plans, the ability to realize any withdrawal of surplus, contribution holiday or receipt of a refund in contributions is dependent upon the negotiation of a written agreement, which limits the province from accessing those economic benefits until agreed upon. Since such agreements were not in place as at March 31, 2016, there cannot be any expected future benefit from contribution reductions or surplus withdrawals to measure under subparagraphs (a) and (b) of PS 3250.56, requiring the province to record a full valuation allowance against its accrued benefit assets for OTPP and OPSEUPP.

D. Discussion—Measuring the Limit on Carrying Value of Accrued Benefit Asset

Notwithstanding the aforementioned conclusions on the recognition of an accrued benefit asset under PS 3250, we also examined measurement considerations required by the calculation of a limit on the carrying value on an accrued benefit asset set out in PS 3250.056. Beyond the formula expressed in paragraph PS 3250.056, guidance on the calculation is limited and therefore, requires significant judgment in application. Here we highlight some of these judgment areas and points of consideration that, in our view, are salient to approaching to the calculation.

D.1 Present Value of Expected Future Accruals for Service

Paragraph PS 3250.57 has clear guidance on the future accruals for service element of the limit calculation. First, “a government’s expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation.” Second, “the interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.”

In our view, for objectivity and consistency with the measurement of the accrued benefit obligation, the estimate of the expected future accruals for service should be based on the facts agreed to by the two parties as at the financial reporting date, and not on the basis of intention or precedent.

To determine the present value of expected future accruals for service, the period over which the accruals are discounted also requires consideration. Section PS 3250 does not provide additional interpretive guidance on determining the period of discounting.

In our view, the period used should be consistent with the nature of the plan and the agreement between the partners. For example, an indefinite life assumption may be more suitable for a public sector plan with joint sponsors than a private sector, sole-sponsored plan where there may be less certainty regarding the duration of the plan. Anecdotally, we understand that the use of a perpetuity assumption for the present value of expected future accruals for service is consistent with existing actuarial practice for many public sector plans.

In summary, based on the requirements in Section PS 3250 and our views of the objectives of the calculation under paragraph PS 3250.056, any calculation of the present value of expected future accruals for service should have all of the following characteristics:

- the future current service for the current number of active employees is estimated on a basis consistent with that used to determine the associated accrued benefit obligation;
- the interest rate used to calculate present value is the same rate used to determine the benefit expense in the period;
- all estimates are consistent with the jointly agreed upon benefits at the year-end date; and
- the period of extrapolation and discounting should be consistent with the nature of the plan.

D.2 Required Employee Contributions and Required Government Minimum Contributions

Required employee contributions are determined based on the agreement that is in effect at the financial reporting date. Required employee contribution levels stay in force until the two parties agree to a different decision, similar to the government's minimum contributions.

PS 3250 does not expand on what is meant by "minimum contributions the government is required to make regardless of any surplus". The government's minimum contributions are linked to those made by the members of the plan on a 1:1 ratio and the entity does not have unilateral rights to change plan funding (or benefits). Modifications to regular contribution rates or special contributions arising from the utilization of surplus assets require the consent of the joint sponsors in the form of a written agreement. Until an agreement is in place, the current contribution levels would remain in place and the government would be legally obligated to make its agreed-upon contributions to the plan.

In our view, minimum contributions would be extrapolated based on current baseline contribution levels over the same time period used to calculate the present value of expected future accruals for service. If a plan's nature suggests that a perpetuity assumption is appropriate, an exception to this assumption would be expected for any portion of a sponsor's minimum contributions that are time-limited (e.g., special contributions). In this case, we would not expect the extrapolation of these contributions beyond the stipulated time limit.

In summary, based on the requirements in Section 3250 and our views of the objectives of the calculation under paragraph PS 3250.056, any calculation of the required employee and government minimum contributions should have all of the following characteristics:

- minimum contributions are reflective of current levels of baseline contributions and the terms of agreement(s) in place at the year-end date;
- the interest rate used to calculate present value is the same rate used to determine the benefit expense in the period; and
- the period of extrapolation and discounting should be consistent with the time period used to calculate the present value of expected future accruals for service.

D.3 Conclusion on Measuring the Limit on Carrying Value of Accrued Benefit Asset

Recall that for the year ended March 31, 2016, total employee and employer contributions exceeded current service cost earned by employees for each plan as a whole. If we further assume:

- the joint sponsors have not negotiated agreements to significantly change future benefits or contribution levels for either employees or the province;
- fiscal 2015/16 contributions and service cost levels continue into the foreseeable future; and
- total contributions and total service cost are extrapolated and discounted over the same time period at the same discount rate, then

for the year ended March 31, 2016, any such calculation performed under paragraph PS 3250.056 would yield a negative net present value for both plans. As a result, even if one suspends the conclusion that the accrued benefit asset requires a full valuation allowance on the basis of failed recognition, the same conclusion can be reached on the basis of the measurement of the limit on the carrying value of the asset as at March 31, 2016.

E. Discussion—Applicability of Other Sections of PSAS

During our evaluation of the province’s accounting for its accrued benefit assets as at March 31, 2016, we also considered the applicability of other areas of the Public Sector Accounting Handbook that could lend insights into our analysis. In summary form, for reference, we have included the conclusions from our considerations here.

E.1 Section PS 3320, Contingent assets

If one were to suspend the “current entitlement” guidance in paragraph PS 3250.059, a government’s expectation that it can support the recognition of an accrued benefit asset because it may reduce its future contributions (special or minimum) through future negotiations can be examined against the concepts in Section PS 3320, Contingent assets.

PS 3320.03 notes that contingent assets arise from existing conditions or situations involving uncertainty. The notion of uncertainty is present in paragraph PS 3250.052 in the context of “...uncertainties as to a government’s legal right to use a plan’s accounting surplus.” Even in the case where the future confirming event is likely (i.e. a successful negotiation resulting in government contribution holiday or refund), the guidance in Section PS 3320 would prevent a contingent asset from being recorded in the financial statements, but rather, require note disclosure instead. This treatment, which is different than contingent liabilities, is based on the notion that the definition of an asset requires the government to “control” the resource. Until agreements are in place between the sponsors, the province does not control the asset.

For the year ended March 31, 2016, we believe that note disclosure of the pension asset was appropriate. This was also consistent with treatment of pension assets in the audited consolidated financial statements for the provinces of British Columbia (prior years) and New Brunswick (fiscal 2015/16).

E.2 Section PS 3060, Government partnerships

The definition of a government partnership is provided paragraph PS 3060.06:

A **government partnership** is not a government organization but is a contractual arrangement between the government and a party or parties outside of the government reporting entity that has all of the following characteristics:

- (a) the partners co-operate toward achieving significant clearly defined common goals;
- (b) the partners make a financial investment in the government partnership;
- (c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and
- (d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The definition of a joint defined pension plan is provided in the glossary to Section PS 3250:

A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:

- (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;
- (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;
- (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and
- (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

At first glance, both standards appear to use very similar wording in their respective definitions. However, we highlight a key difference in part (d) of each definition. The partners in a government partnership share in both the significant risks and benefits associated with the partnership. In contrast, the co-sponsors of a joint defined benefit plan need only share in the significant risks associated with defined benefit plan sponsorship. Since the province's access to the net assets of OTPP and OPSEUPP (withdrawal, holidays or refunds) is restricted, these two plans would not meet the definition of a government partnership.

Further to our comparison of key definitions above, we also examined whether joint defined benefit pension plans generally fall inside the scope of PS 3060, as follows:

- Per paragraph PS 3060.06: “A government partnership is not a government organization but is a contractual arrangement between the government and **a party or parties outside of the government reporting entity...**” [emphasis added]
- The term “government reporting entity” in paragraph PS 3060.06 is footnoted in the standard as follows: “In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.”

- Since OPSEUPP represents active and retired provincial government employees, we concluded that the OPSEUPP falls outside the scope of PS 3060.
- Since OTPP represents active and retired provincial government employees (and school boards are considered part of the province's reporting entity), we concluded that the OTPP falls outside the scope of PS 3060.

END OF MEMO

APPENDIX A: Excerpts from PS 3250, Retirement benefits

The objectives of funding and accounting

.008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.

.009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. Accordingly, it is necessary to develop accounting estimates of liabilities for retirement benefits and expenses using an actuarial cost method and actuarial assumptions that ensure essential information required for fair presentation of financial condition and results of operations can be reported in government financial statements.

.010 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.

Actuarial assumptions

.042 *Actuarial assumptions should be based on the government's best estimates of expected long-term experience and short-term forecasts.* [SEPT. 2001]

Limit on the carrying amount of an accrued benefit asset

.050 *An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.* [SEPT. 2001]

.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not

entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.055 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

- a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
- b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been

obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Joint defined benefit plans

.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.081 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans. [SEPT. 2001]

.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

GLOSSARY

An **accrued benefit asset** is the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance).

An **adjusted benefit asset** is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains.

The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions. A government determines its expected future benefit as the sum of:

- (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
- (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:

- (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;
- (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;
- (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and
- (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

A **plan asset** is an asset segregated and restricted in a trust or other legal entity separate from the reporting government to provide for retirement benefits under the following conditions:

- (c) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and
- (d) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

For purposes of this Section, plan assets do not include amounts held by the government and not yet paid into the trust or other legal entity.

This year, our audit opinion on the Province's consolidated financial statements is qualified. This means that based on our audit work, we have concluded that the Province's consolidated financial statements for 2015/16 are fairly presented, except for the item disclosed in the basis-for-qualified-opinion paragraph.

The Auditor General's qualification this year arises from an error in the Province's accounting related to the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan presented in the comparative results for 2014/15. The significant rise in the value of the pension assets reported in the consolidated financial statements in recent years triggered an in-depth review by our Office.

We encountered considerable challenges this year in our audit work on the pension assets. Our Office worked diligently with the Office of the Provincial Controller (OPCD), Treasury Board Secretariat and Ministry of Finance to secure their written position paper of their opinion on the proper accounting treatment. To date, their complete analysis on the recognition and valuation of pension assets has not been provided to us, even after OPCD sought and received external advice. Throughout the audit, we received relevant pension information gradually and on a piecemeal basis from OPCD. It was difficult for us to appropriately assess the government's accounting position with new and not always applicable information being presented to us. At the end of the audit, in our view, OPCD was unable to adequately support their position that no adjustment to record a valuation allowance against the pension assets was actually needed.

However, although the government correctly adjusted the March 31, 2016, pension liability and pension expense for the current year ended March 31, 2016, the 2014/15 comparative figures were not restated to correct for the related prior period adjustment. A discussion of the accounting treatment of a pension asset is provided in **Section 3.9**. We determined that the pension asset adjustment impact on the comparative year in the

financial statements was material and this is the basis for the Auditor General's qualified opinion.

The Auditor General has also included an "other matter" paragraph in the Independent Auditor's Report this year to point out that, in addition to making it difficult to compare 2015/16 to 2014/15, the error may also have an impact on interpretation of trends in previous years that are reflected in the Province's financial statement discussion and analysis.

3.4 Pension Assets and the Consolidated Financial Statements

At issue this year was the Province's accounting treatment of pension assets related to the jointly-sponsored Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union (OPSEU) Pension Plan. As at March 31, 2016, the government recorded pension assets from OTPP and OPSEU of \$10.147 billion and \$521 million, respectively, for a total of \$10.668 billion.

On the consolidated statement of financial position, the pension asset is grouped in the pensions and other employee future benefits liability line item. The total pension assets in OTTP and OPSEU of \$10.668 billion, is offset by \$1.356 billion of accrued liabilities from other pension plans, which results in a net accrued pension asset of \$9.312 billion before considering any valuation allowance. The \$9.312 billion pension asset is further offset by other employee future benefits liabilities of \$10.751 billion (all figures before valuation allowance). After applying the valuation allowance of \$10.668 billion, this results in total pensions and other employee future benefits liability of \$12.107 billion reported on the consolidated statement of financial position, as illustrated in **Figure 1**.

Before a pension asset is recognized, the Province, as a sponsor, must first consider the limit on the carrying amount of an accrued pension asset. The accrued pension asset cannot exceed the expected future benefit the Province can realize

Figure 1: Pension and Other Employee Future Benefits Liability (Asset) as at March 31, 2016

Sources of data: 2015/16 Consolidated Financial Statements

	2016		2015
	2016 Pensions (\$ million)	Other Employee Future Benefits (\$ million)	2016 Total (\$ million)
Obligation for benefits	117,542	10,999	128,541
Less: plan fund assets	(141,749)	(562)	(142,311)
Unamortized actuarial gains	12,649	305	12,954
Adjustments ¹	2,246	9	2,255
Accrued liability (asset)²	(9,312)	10,751	1,439
Valuation Allowance ²	10,668	—	10,668
Total	1,356	10,751	12,107

1. Adjustments for pensions consists of:

- i) differences for amounts reported by the pension plans at December 31, instead of the province's year-end of March 31;
- ii) unamortized difference between employer and employee contributions for jointly sponsored pension plans; and
- iii) amounts payable by the province that are reflected as contributions in the pension plan assets.

2. Valuation allowances are related to the pension assets for the Ontario Teachers' Pension Plan and for the OPSEU Pension Plan.

from the asset. PSAB standards provide guidance on this and require an annual calculation of the "pension asset ceiling" as a test to determine if the pension asset is impaired (this is explained further in **Chapter 4, Section 4.01**, where we discuss sponsor accounting for a pension asset).

We contacted OPCD with concerns regarding the pension asset issue on June 8, 2016 and formally raised the pension asset accounting issue in our finalized Audit Planning Report to Treasury Board Secretariat and the Ministry of Finance dated June 24, 2016. It became apparent to us that management, as preparers of the financial statements, did not have documentation available to support their original decisions on the accounting treatment to support recognition of \$10.668 billion of pension assets. A partial response was provided to us in late August, and this was the beginning of numerous meetings with OPCD, Treasury Board Secretariat, Ministry of Finance and their external advisers into September on the issue.

We co-operated with all parties to address the accounting treatment of the pension assets. However, we were provided at times with partial answers that did not fully address our questions and requests, thus prolonging the issue. In addition,

the Province engaged external advisers to assist in this matter and, in our view, the advice received did not support the province's recognition of the \$10.668 billion pension asset. Based on the information that we had received and our consultation with our own external experts, we issued letters in September 2016 to reconfirm our key concerns and outlined our position on the accounting treatment of the pension assets in an effort to encourage constructive dialogue and to receive an OPCD documented position on this accounting issue.

It was clear, based on the evidence provided and reviewed, that we would issue a qualified audit opinion if an adjustment was not made to recognize a full valuation allowance against the pension assets to reflect that the government cannot presently realize any benefit, i.e., essentially recognizing that the value of the pension asset is reduced to zero.

3.5 Legislated Accounting for Pension Assets

On September 30, 2016, the government amended the Ontario Regulation 395/11 for the current year's accounting treatment of the pension assets to mandate that a full valuation allowance be taken

against the recorded pension assets. This resulted in the pension assets value to the government as at March 31, 2016, being reduced to zero.

Historically, we have reported that it is a troubling precedent for a government to adopt accounting practices through legislation rather than following standards issued by the independent standard setters—the PSAB. Our position remains the same. Complying with generally accepted accounting standards does not require a regulation, and the move to legislate this accounting treatment for the pension assets was unnecessary.

However, the government had conveyed to us that senior management in the Ministry of Finance and Treasury Board Secretariat needed legislation in order to sign the management representation letter. A signed management representation letter is a requirement under Canadian Auditing Standards to indicate the fulfilment of management’s responsibilities in an audit. These include and are not limited to ensuring that the financial statements have been prepared in accordance with PSAB standards for provincial government purposes.

Prior to passing the regulation, on September 29, 2016, the government provided us with an updated version of the financial statements with the pension asset adjustment as shown in the now tabled audited consolidated financial statements. A read of the notes to the consolidated financial statements reveals the purpose of the legislation. In Note 18, the government disclosed that the change in accounting was made to reflect our Office’s view of PSAB standards as it relates to accounting treatment of the net pension assets.

To be clear, it is the government’s responsibility to prepare the financial statements on the basis of the applicable financial reporting framework. In the case of the Province’s consolidated financial statements, the applicable framework is legislation and PSAB standards. The onus is on the government to decide the accounting treatments it believes are most appropriate to use in accounting for transactions. If there is a disagreement on the application of the PSAB standards related to a material

matter, this results in a qualified audit opinion, as the Auditor General’s opinion has to be provided with reference to the PSAB standards.

As the preparer of its own financial statements, the government did not put forward adequate evidence to support its position to continue to recognize the \$10.668 billion pension asset under PSAB standards. Instead, it passed legislation that enabled it to publicly disagree with our Office while at the same time avoiding a qualification on the 2015/16 annual deficit and accumulated deficit figures.

The legislation was used as a tool to prescribe an accounting treatment for the government. As we discuss later in our report, the government has and continues to issue selective regulations rather than apply independently established accounting standards.

Notably, however, the regulation did not extend this accounting treatment to the prior comparative fiscal year ended March 31, 2015, and this ultimately served as the basis for the Auditor General’s qualified opinion because the same error in the comparative information should have been corrected under PSAB standards. We communicated this concern the day after we received the September 29, 2016, version of the March 31, 2016, consolidated financial statements.

3.6 Release of Unaudited Financial Statements

Our Office was disappointed that the government decided to release the consolidated financial statements without the Auditor General’s audit opinion on October 3, 2016. On the morning of October 3, 2016, prior to the release of the consolidated financial statements, we were still in discussions with management about the pension asset issue (its presentation in the statements and the related note disclosures) following receipt of the September 29, 2016, version (the updated draft of the consolidated financial statements). We had met that morning with the Minister of Finance, the Minister

responsible for Treasury Board, their Deputy Ministers and their Chiefs of Staff, and left the meeting with the impression they would get back to us with amended draft statements.

In its news release, the government maintained that the unaudited financial statements were released to ensure openness and transparency, yet the manner in which this was done had taken our Office by surprise. Despite meeting earlier in the day to discuss the financial statements, there was no indication from the government that it planned to release these statements later that day. In fact, the Chief of Staff of the Minister of Treasury Board Secretariat notified the Auditor General in an email of the decision to release the statements, only 50 minutes before their technical briefing to the media.

This is the first time that unaudited consolidated financial statements for the province of Ontario have been released.

While it was disappointing that the government took this unprecedented step, at the same time it also provided resolution to the ongoing pension asset issue as the government then affirmed that the released unaudited financial statements were to be the final consolidated financial statements and no further changes were to be expected. On this note and upon receipt of the signed management representation letter, the Auditor General was then able to provide her opinion on October 5, 2016.

3.7 Basis for Qualified Opinion

Although the government correctly adjusted this year's deficit to include a \$1.514 billion increase to pension expense and an increase of \$10.668 billion to the pension liabilities, it did not process this adjustment correctly because it did not make the same adjustment for the same error that existed in the prior year comparative period.

The restatement of the comparative period is required under PSAB standards because the prior period adjustment is significant enough that it could affect decisions made by users of the Province's consolidated financial statements. Of further

concern is that, by not restating, the government demonstrates a lack of transparency on the nature of the adjustment of the pension assets as a correction of an error in prior periods.

PSAB standards state that "the nature of the government requires a degree of transparency in financial reporting that most private sectors do not offer. The level of understanding of government finances held by most financial statement users demands this greater transparency. Governments are accountable to taxpayers on many levels, in contrast to the more limited accountability a company has for return on investment to a limited group of investors." With these reasons in mind, the lack of the restatement of the 2015 comparative period has resulted as the basis for the qualified audit opinion.

3.8 Other Matter Paragraph

Consistent with prior years, the audited consolidated financial statements and the auditor's report are included in the Public Accounts Annual Report (Annual Report), which also consists of the financial statement discussion and analysis (FSD&A). The FSD&A provides a high-level summary of the fiscal year's results, including analysis of the significant variances between the current fiscal year's actual results and the previous fiscal year's budget and actual results, as well as significant financial trends.

In accordance with Canadian Auditing Standards, our Office has the responsibility to read the Annual Report to ensure that the integrity of the audited consolidated financial statements are not undermined by contradictory information in other annual report sections, such as the FSD&A.

The Other Matter paragraph draws attention to the fact that the comparative periods disclosed in the FSD&A also have not been restated for the pension asset accounting prior period adjustment. Given the materiality of the amounts related to prior periods, the discussion and analysis of the fiscal year's results would, if the amounts were restated, be materially different from the current version.

3.9 Discussion of the Accounting Treatment of a Pension Asset

A pension asset generally arises when the government's total contributions to a plan (plus interest earned thereon) is greater than the pension expense recognized for employee service since the plan's inception.

In addition, PSAB standards limit the carrying amount of the pension asset. The limit requires a government to record a valuation allowance for any excess of the pension asset over the government's "expected future benefit." In other words, the limit calculation caps the pension asset at an amount equal to the government's expected future benefit. Subsequent changes in a valuation allowance are recorded in the consolidated statement of operations in the period that the change occurs.

As shown in Note 6 to the consolidated financial statements, the Province recorded a valuation allowance against the total amount of pension assets related to OTPP and OPSEU as at March 31, 2016. Essentially, the expected future benefit of the pension assets was determined to be zero.

A government's expected future benefit is the benefit a government expects to realize from a pension plan's surplus. The benefit can be in the form of reductions in future required contributions or cash withdrawal of the surplus.

PSAB standards provide guidance on the factors to consider in determining whether a benefit should be included in the calculation of a government's expected future benefit. For example, expected future benefit excludes any surplus withdrawals to which the government is not currently entitled, such as those subject to the approval of employees, an appropriate regulatory authority, or a court of law, where no such approval has been granted.

The standards specifically state that a government may not *anticipate* obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. The same concepts are applicable when determining the government's ability to reduce its future minimum contributions.

After reviewing the agreements governing the jointly sponsored pension plans, we determined that the government does not have the unilateral right to reduce contributions without reaching a formal agreement with the plans' joint sponsors. As a result, we concluded that the government did not have a legally enforceable right to benefit from the pension assets because agreement from the joint sponsors was not obtained for either the current or prior fiscal year.

For greater certainty, we also examined whether the pension assets met the definition of an asset laid out in the financial statement concepts that underpin all PSAB standards. This guidance defines assets as economic resources controlled by a government as a result of past transactions or events, and from which it expects to obtain future economic benefits. The three essential characteristics of assets are:

- They must embody future economic benefits that 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.
- The government can control the economic resource and access to the future economic benefits.
- The transaction or event giving rise to the government's control has already occurred.

The first characteristic could potentially be met as the asset offers the potential for either reduced future cash inflow or reduced cash outflows in the form of a surplus withdrawal or a reduction in future contributions. A further option is that benefits could be increased to members.

However, the second characteristic is not met because the government does not control access to the benefits of the plan surplus, including taking any unilateral actions to change its contribution amounts, taking contribution holidays, or withdrawing surplus. Under both plan agreements, these actions require negotiation and agreement between the two joint sponsors. No transaction or event has occurred to give the government this legally enforceable right and, as a result, the

government has neither control, nor access to the assets. As a result, the third characteristic also is not met. Therefore, we could not conclude that the pension assets reported by the Province met the definition of an asset as at March 31, 2016 or in prior years.

The result of applying PSAB standards is an adjustment to recognize a valuation allowance against the total amount of pension assets to reflect an expected future benefit of zero. This is also consistent with the application of the fundamental concepts in the standards on recognition of assets.

Our position that a full valuation allowance against a reported pension asset should be recognized is consistent with the application of PSAB standards used by both British Columbia and New Brunswick in preparing their consolidated financial statements.

RECOMMENDATION 1

We recommend that the Treasury Board Secretariat and the Ministry of Finance finalize their position on the pension asset issue.

RESPONSE FROM TREASURY BOARD SECRETARIAT IN CONJUNCTION WITH MINISTRY OF FINANCE

To inform the Province's accounting treatment for pension plans, the government has established an Expert Advisory Panel (Panel) that will provide advice on the interpretation of Public Sector Accounting Standards (PSAS) to the Province's net pension assets.

The Panel's recommendations will inform the Province's final position paper on accounting for net pension assets, which will be shared with the Office of the Auditor General.

3.10 Office of the Provincial Controller Division

The Office of the Provincial Controller Division (OPCD) plays an essential role in the preparation

of the Province's consolidated financial statements. It also ensures effective financial management, accounting and control of programs, activities and resources by providing timely accurate advice. This includes providing accounting and financial advice to ministries, working with the Office of the Auditor General and alerting senior officials to significant issues.

With accounting standards changes and the need to account for new and increasingly complex transactions that need to be reflected in the consolidated financial statements, this invariably creates significant workload pressures for OPCD staff. As well, staffing changes add to the challenges faced by OPCD.

Despite these pressures, it is important for our audit that OPCD has the capacity to adequately address accounting issues on a timely basis as they arise. This includes the timely preparation of position papers on these issues to support both the preparation and audit of the consolidated financial statements.

RECOMMENDATION 2

In order to ensure that appropriate, timely and complete information is provided to the Office of the Auditor General during the conduct of the audit of the consolidated financial statements for the Province of Ontario, the Office of the Provincial Controller Division should:

- proactively alert senior officials in the Treasury Board Secretariat and the Ministry of Finance to significant issues that arise during the course of the annual audit;
- provide the Office of the Auditor General with complete and timely position papers on significant accounting issues that detail its accounting positions and support for those positions; and
- strengthen and increase internal resources dedicated to providing accounting advice and preparing and finalizing the consolidated financial statements.

OFFICE OF THE PROVINCIAL CONTROLLER DIVISION RESPONSE

As part of the audit planning process for the 2016/17 Public Accounts, the Office of the Provincial Controller Division will work with the OAG to ensure a common understanding of all issues.

3.11 Government's Use of External Advisers

The government engages external advisers throughout the year in various capacities that include providing accounting analysis, advice and interpretation. The interests of the Treasury Board Secretariat, the Ministry of Finance and the Office of the Auditor General are best served when there is full disclosure on the intent and use of external advisers. For this reason, any work performed by external advisers in formulating an accounting position should be shared with the Office of the Auditor General as soon as possible, as part of the audit of the consolidated financial statements.

RECOMMENDATION 3

Given that the Office of the Auditor General is the appointed auditor for the consolidated financial statements of the Province of Ontario, and in the interest of ensuring that all information is provided to the Office of the Auditor General on a timely basis, the Treasury Board Secretariat should:

- provide copies of contracts with the expert advisers it uses for accounting advice and opinions in order to ensure that the Office of the Auditor General understands the work that the expert advisers are performing and the impact it has on the annual audit; and
- request that their external advisers, engaged to provide accounting advice and opinions related to the public accounts audit, notify the Office of the Auditor General of the engagement as required by the Code of Pro-

fessional Conduct of the Chartered Professional Accountants of Ontario.

TREASURY BOARD SECRETARIAT RESPONSE

We will ensure that information required to be provided under professional standards is shared with the Office of the Auditor General.

4.0 Use of Legislated Accounting Standards

PSAB standards are largely accepted by federal, provincial, territorial and local governments as the basis for the preparation of their financial statements.

However, as standards develop to address increasingly complex transactions, especially when the standards have a significant impact on the accounting for and measurement of transactions affecting a government's annual deficit or surplus, or net debt, governments may become more reluctant to adopt them because of the potential to create volatility in annual results.

As discussed in our *2015 Annual Report*, the government passed legislation in 2009/10, 2011 and 2012 giving it the ability to make regulations for specific accounting treatments rather than apply independently established accounting standards. Ontario has passed legislation or amended regulations to enable it to prescribe accounting policies for its public-sector entities as follows:

- The *Investing in Ontario Act, 2008* (Act) and related regulations allows for the government to provide additional transfers to eligible recipients from unplanned surpluses reported in its consolidated financial statements. Any transfers made under the Act would be recorded as an expense of the government for that fiscal year, regardless of PSAB accounting standards.



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

February 3, 2017

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Puskaric:

Re: INVITATION TO COMMENT – EMPLOYMENT BENEFITS: DEFERRAL PROVISIONS IN
SECTIONS PS 3250 AND PS 3255– November 2016

Thank you for providing us with the opportunity to comment.

Our Office supports PSAB's initiative to update the guidance on the recognition and measurement of employment benefits.

We believe that the accounting for employment benefits must recognize users' need for reporting that is clear, relevant and readily understood. The primary users of the financial statements are taxpayers and their elected representatives. This means that the concepts and terminology used in the accounting and reporting of employment benefits must be designed so that they are readily understandable by these users.

One of the primary objectives of financial reporting is accountability. Standards for financial reporting should facilitate accountability by including the most relevant information. We have responded to the questions posed in the Invitation to Comment with these principles in mind.

Responses to Requests for Specific Comments

Our responses to the matters on which you specifically requested comments are set out below.

Question 1

Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

We agree with PSAB's proposal to revisit the current approach to accounting for deferrals. As we have noted in the past on other issues, although governments operate in perpetuity, we do not believe that this fact should impact the timing of the recognition of financial events. We believe that the consequences of economic events, with few exceptions, should be included in the government's reported financial results on a timely basis.

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Question 2

(a) Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

(b) Are there any additional components that should be separately identified and considered?

Question 2(a)

The discount rate has a major impact on the accrued benefit obligation and is one of the most significant assumptions that a government makes in valuing the obligation. For this reason, we encourage PSAB to consider discount rates separately in determining the accounting for the changes in the accrued benefit obligation. To minimize the need for further complexity in the financial statements, we believe that the remaining components of the changes in the accrued benefit obligation should be treated similarly.

Question 2(b)

No.

Question 3

Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

We believe the view that breaks down the investment return component of the changes in the value of plan assets between realized and unrealized gains and losses is the most appropriate. Under this view, we would expect realized gains and losses to be recognized in the statement of operations, consistent with current accounting for financial assets. We would also expect the accounting for unrealized gains and losses would follow the selected model of accounting for other actuarial gains and losses (see response to question 11).

The realized/unrealized view is the most understandable to public sector financial statement users because realized gains are outcomes of objective economic events (i.e. the final settlement of an investment transaction). The alternative expected/unexpected view is based on a relatively more arbitrary expected return assumption that is far less intuitive to the average user.

Question 4

Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

Another possible approach is to account for the entire investment return component as a single unit, without distinguishing between the various types of gains and losses. Any changes in market value of the plan assets would be recognized immediately, effectively following the immediate recognition approach for actuarial gains and losses. For consistency, the immediate recognition approach would be applied to both plans assets and obligations concurrently. This approach has the advantage of increasing relevancy and minimizing complexity in the financial statements.

Question 5

Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

Yes. With respect to the changes in the value of plan assets, we believe that if the realized/unrealized view were to be adopted, there is a challenge to practical application that should be considered. The realization and timing of the economic event that triggers the classification of a gain or loss under this view—that is, the settlement of an investment position—can often be under the control, or significant influence, of management. As a result, issues of potential “gamesmanship” would need to be considered.

For example, management could churn a particular investment (i.e. a sale followed by a repurchase shortly thereafter) to crystallize a desirable gain in income. As a second example, a long-dated or non-maturing investment that is impaired (i.e. a fair value significantly below cost for a prolonged period of time and unlikely to recover) represents an unrealized loss that management can potentially defer indefinitely by simply not selling the investment.

We believe that for either view of componentizing changes in the fair value of assets (realized/unrealized or expected/unexpected), the potential for manipulation should be considered and addressed in any future standard that is created.

We did not identify additional aspects of changes in the accrued benefit obligation that should be considered.

Question 6

Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

We are not aware of any other significant considerations.

Question 7

Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

We are not aware of other alternatives that can be more readily understood by users of public sector financial statements.

Question 8

Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

One additional alternative to address the high degree of uncertainty inherent in the measurement of the accrued benefit obligation is to base the amortization period on the frequency of the full actuarial valuation. The actuarial valuation results in a recalculation of the total actuarial gains and losses and updates the obligation using best estimates that reflect the most probable set of economic conditions. These valuations generally occur once every three years (or more frequently). It follows that it may be appropriate to amortize the updated total actuarial gains and losses over the corresponding three year period.

This alternative amortization period results in a truer picture of the state of the benefit obligation and related plan assets compared to the current approach of amortizing over the expected average remaining service life of employees. As discussed in our response to Question 1, a shorter deferral period also helps users hold the government of the day accountable for economic events and decisions that occur under their mandate.

Question 9

Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

Beyond the market value approach discussed in paragraph .122 to .125, we did not identify additional alternatives for valuing plan assets that we believe would reduce overall complexity or facilitate an average user's understanding of public sector financial statements.

Question 10

Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

See response to Question 5.

Question 11

How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

We believe all actuarial gain and loss components under PS 3250 and PS 3255 should be recognized immediately on the statement of financial position with no off-balance sheet deferrals. In our view, this approach results in a statement of financial position that reflects the latest best estimate of the public sector entity's employee benefit obligations, which is the most understandable and relevant approach to financial statement users. Actuarial gains and losses would either be recognized immediately in the statement of operations or over a short amortization period – see response to Question 8.

Question 12

On what basis should plan assets be valued?

We believe that plan assets should be measured at the fair value at the balance sheet date (market value). Market values are more relevant and more readily understood by financial statement users. In contrast, the determination of market-related values involves calculations that are not transparent to users. Even the term itself may lead to confusion, as the two phrases are similar but have different meaning. Without the insight provided by financial statement disclosures, users may mistakenly equate the two.

If market-related values are retained, we encourage PSAB to amend the name and/or expand the disclosure requirements for plan assets to include an explanation of how market-related values are determined. This will help users understand the difference between market-related values and market values.

Question 13

Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Our Office is part of a multiemployer defined benefit plan. As we are not the sponsors of the plan, in accordance with PS3250.110, we follow the standards for defined contributions plans. As a result, actuarial gains and losses and market value of plans assets are not recognized or disclosed in our financial statements.

Question 14

What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

See response to Question 13.

Question 15

Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

We believe PSAB should consider how the concepts of control give rise to or impact the recognition of an accrued benefit asset and, if applicable, the determination of the expected future benefit when performing the "asset ceiling test". Specifically, we would encourage PSAB to explore the issues surrounding control that arise when a joint sponsor recognizes an accrued benefit asset arising from a joint-defined benefit pension plan.

To further inform the Employment Benefits Task Force on this important issue, we attach a presentation and paper we developed on the accounting for pension assets. We also attach an extract from our 2016 annual report further outlining our position.

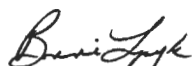
Question 16

Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

See response to Question 13.

Thank you for the opportunity to comment.

Yours truly,



Bonnie Lysyk
Auditor General of Ontario

Attachments



PROVINCIAL AUDITOR
of Saskatchewan

February 9, 2017

Mr. Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
Chartered Professional Accountants of Canada
277 Wellington Street West
TORONTO, ON M5V 3H2

Dear Mr. Puskaric:

Re: Invitation to Comment – Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255

We support the examination of the deferral provisions in Sections PS 3250 and PS 3255. The attachment sets out our responses to the specific questions listed in the invitation to comment.

Yours truly,

A handwritten signature in blue ink, appearing to read 'J. Ferguson'.

Judy Ferguson, FCPA, FCA
Provincial Auditor

AH/dd
Attachment

	Question	Response
1	Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?	Yes, we agree: - It is important for PSAB to re-evaluate on a periodic basis if its standards are still appropriate. - In light that other standard setting bodies have chosen to move away from deferral, PSAB needs to assess if the public sector is sufficiently different to require deferral.
2	(a) Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?	The changes in the value of the accrued benefit obligation that should be considered separately are: Current and past service costs, interest cost on benefit obligation, benefit payments, changes in actuarial assumptions (i.e. demographic, discount rate, other economic), experience adjustments, plan curtailment and plan settlement.
	(b) Are there any additional components that should be separately identified and considered?	No
3	Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?	We support the expected and unexpected return on investment because other employee benefit standards are essentially based on this view.
4	Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?	No
5	Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of	No

	Question	Response
	financial position that have not been identified in paragraphs .018-.065?	
6	Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?	No
7	Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?	No
8	Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?	No
9	Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?	No
10	Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?	No

	Question	Response
11	How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?	All of the components of the changes in the value of the accrued benefit obligation and the market value of plan assets should be recognized in the statement of financial position. We prefer no recognition in the annual surplus/deficit (no recycling)
12	On what basis should plan assets be valued?	Fair Market Value
13	Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.	Not applicable
14	What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.	Not applicable
15	Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the “Background to the project” section (page ii) that PSAB should consider in this project?	No
16	Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?	No

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255
Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name: Dan Stadlwieser

Organization: Office of the Controller, Alberta Treasury Board and Finance

E-mail: dan.stadlwieser@gov.ab.ca

General comments:

Thank you for the opportunity to comment.

Our comments are primarily based on the view that governments are different and that pension liabilities are long term commitments of governments. Therefore, reflecting short term changes in the financial statements may create unrealistic expectations or force governments to make sub-optimal decisions.

Also, we are not sure how far the outcome of this project is going to be affected by the finalization of the conceptual framework and the proposed direction in the reporting model.

Nevertheless, we will follow the developments in this area with keen interest.

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes.

The related standards issued by other Canadian and international standard setters in the private and public sector have gone through significant changes since the PS 3250 & PS 3255 were issued. It may be an appropriate opportunity to see if divergence from other standard setters is appropriate in the light of the Canadian Governments' unique situation.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

Understandably, various components of actuarial gains and losses are not homogeneous in terms of volatility and

predictability. For example, mortality rates are not subject to same level of change as interest rates. It may be justifiable, therefore, that the changes in mortality assumption be subject to a different treatment than some other economic assumptions. Breaking down the changes in the value of accrued benefit obligation provides some useful analysis of the factors that lead to the change. However, in our view, componentization of changes in the accrued benefit obligation may be impractical, make the assessment of the impact difficult to understand and, as suggested, create opportunities for management of financial results. Review of some of the changes in actuarial assumptions and experience adjustments in our environment supports the view that most are essentially a form of change in estimates. Therefore, in our view, separate identification of the components of the changes in the value of accrued benefit obligations may not serve any useful purpose.

2b. Are there any additional components that should be separately identified and considered?

The components identified in the document appear to be quite comprehensive and address all economic and demographic elements. Political factors may also play an important part in impacting the actuarial assumptions; for example, funding decisions, downsizing or improvement in the benefits by a government. However, such factors are traditionally treated as experience adjustments. Any other additional components are most likely covered by those listed in the ITC.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

In our view, the current approach adopted by PS 3250, i.e., based on the difference between expected and unexpected return on investment, should be continued. By recognizing the unexpected return (actual return less expected return) over EARS, the volatility of the results due to short term fluctuations in the market is smoothed. However, with respect to the partly funded pension plans, it may be appropriate to revisit the rationale for using the expected rate of return on investments in calculating the interest on accrued benefit obligations.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

The "realized and unrealized gains and losses" approach which is more reflective of the current economic events and adopted by some other standard setters is another option. This approach appears to be conceptually more aligned with the FINANCIAL INSTRUMENTS, Section PS3450. However, the resulting volatility should be a concern. PSAB's Conceptual Framework Project should address the treatment of the resulting unrealized gains and losses if this approach is adopted.

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

With respect to "realized and unrealized gains and losses" option, it may be appropriate for the government sponsors to have the option of designating some investments (for example P3s or infrastructure investments) on cost or amortized cost basis instead of fair value.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

The analysis appears to be comprehensive. It is debatable, however, if componentization of the changes in the value of accrued benefit obligation and plan asset can be practically and incontrovertibly accomplished. Also, the cost efficiency and understandability of the results should be taken into consideration

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

All the practical alternatives appear to have been addressed.

We agree that an "expected average settlement period" (as referred to in ¶ .111) may be a more relevant amortization period for closed plans. As pointed out, the full settlement of these plans may take many years to complete.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

None.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

None.

Depending on the nature of a plan, there may be other less common approaches, for example, giving more weight to recent years in smoothing the value or a combination of cost and the difference between cost and fair value.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

No. The analysis appears to be fairly comprehensive.

The "no recycling" approach discussed in ¶s .099-104, may create volatility in the balance of net debt (net financial assets) of the government concerned.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

As stated previously, componentization of changes in the value of accrued benefit obligation and plan assets may be impractical, subjective and potentially too complex for users to understand.

Non recognition in the annual surplus/deficit accompanied by adequate note disclosure appears to be a viable option, as it creates least volatility (apart from its impact on net debt/net financial asset balance).

The practicality of deferring changes in closed pension plans based on "expected average settlement period" should be considered.

Government and users are familiar with the deferred (based on EARS) recognition in the annual surplus/deficit.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Currently they are measured at market value.

-
14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Actuarial gains and losses for non-vesting accumulating sick leaves (in the entities where applicable) are amortized over EARSL.

Actuarial gains and losses arising in the long term disability insurance plans (non vesting and not accumulating) are amortized over the average expected period during which benefits will be paid.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

It is suggested that the compatibility of the current and proposed deferral provisions with the proposals of the conceptual framework task force be taken into account in any future initiatives on this project.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

No. There is not adequate technical support services for such an undertaking.

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February 21, 2017

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Sent via Email: d.psector@cpacanada.ca

Dear Michael:

Re: ITC: Employment Benefits - Deferral Provisions in Sections PS 3250 and PS 3255

General comments:

Thank you for the opportunity to comment on the *ITC: Employment Benefits - Deferral Provisions in Sections PS 3250 and PS 3255*. In general, we do not agree with the principles of this ITC and feel as though it conflicts with the long-term service nature of government. Increased short-term volatility will potentially lead to policy decisions being made with the focus on reducing and controlling this volatility rather than on long-term objectives. Overall, we are concerned that a change in the standard may in fact lead to the accounting driving policy decisions.

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

No, we feel that the current deferral provisions are appropriate and do not require change. The science of actuarial measurement generates estimates based on many assumptions. These are items of inherent measurement uncertainty in the long term view of paying future benefits. Removing the deferrals and recognizing the value today would not make the information about future value any more exact.

We are not aware of any jurisdictions requesting a review of deferral provisions. The users of financial information, the goals and ability to pay are all different for government. In the Canadian context, highly ethical environment and economic policy to promote stability do not justify more stringent FMV measurements. A government situation is not the same as a private company that has going concern risk and is usually governed by stricter pension benefits regulations to protect pension members from funding shortfalls.

2. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

We support the recognition of costs resulting from decisions impacting benefits payable such as current service cost, past service cost, plan amendments, curtailments and settlements. These are directly impacting the core obligation based on decisions made and are attributable to a given period. Also, the imputed interest expense reflects the carrying cost in the period for the long term obligation as would be recorded for other debt instruments like capital leases and borrowings.

However, the remaining components should not be considered separately for immediate recognition. Both changes in actuarial assumptions and experience adjustments are tied to each other. Experience adjustments are often a result of actual experience versus what was previously assumed.

If changes in actuarial assumptions are treated differently than experience adjustments (e.g. deferred vs. immediate recognition), it will encourage management to choose assumptions that will result in the best accounting results as opposed to the most appropriate assumptions. If resulting gains/losses from changes in assumptions are deferred and experience adjustments are recognized immediately, management may choose an extremely conservative assumption, resulting in a large loss upon the change that will be deferred, but this may result in experience gains each year that are recognized immediately.

Are there any additional components that should be separately identified and considered?

No.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

It is more appropriate to break down the expected and unexpected return on investments. Returns on investments for most benefit plans are intended to be long-term and anticipated returns are often the basis for the discount rate. These anticipated rates of returns are derived from the analysis of various investment professionals and it is not unreasonable for a fund to anticipate such returns over a long-time horizon. The value of investments will fluctuate in the short-term, and if an appropriate discount rate is used, the unexpected returns should net out over the long-term. Identifying unexpected returns separately over several periods will also indicate whether the discount rate or the basis for the expected returns is appropriate or whether it should be revised, which would not be evident if returns were looked at on a realized/unrealized basis. Also, investments are not held for trading in the usual sense of managing a portfolio. Investments are rolled over, back and forth from short to long to short terms as markets fluctuate, for long-term availability to pay pensions. Each investment cannot be isolated, but should be considered as part of the rolling value of the net pension liability. Realized gains are not available for the payment of general liabilities but belong to the plan trust. The province's responsibility is to account for its best estimate of the net liability projected well into the future. The long term view is the basis of the actuarial measurement which entails professional models and theory. The deferrals

approach respects the nature of these estimates and reflects how they will evolve over the long term until the benefits are paid.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

No. The focus should be on whether the long-term expected return is an appropriate assumption not on the evaluation of asset mix, types of returns, or short-term values. The fair market value view is short-term focused and can be inconsistent depending on the source of the fair value measurement.

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

No.

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

The main consideration for determining the accounting should be in how users of the financial statements (the public and elected officials) perceive and make decisions based on such information. Plans that are accounted for under this standard are subject to large gains and losses each year which are often due to factors that are outside of government's control i.e. market fluctuations and other cyclical factors. In addition, these fluctuations tend to partially offset over time with new experience and changes in assumptions.

Unlike the private sector, users of public sector financial statements are less sophisticated. Therefore, reflecting these large swings year over year in net debt may cause alarm and result in decisions being made that are not in the best interests of the government, its employees, or the public. For example, a large negative swing in one year may lead government to determine that an employee benefit plan is unsustainable and should be changed or phased out. In addition, it could also affect public perception in terms of whether the government is properly managing its financial resources (even though the fluctuations are due to factors that are out of its control). Finally, drastic short-term swings may cause governments to make cuts to services such as: health care, education, infrastructure, etc., to compensate for the additional pressure on net debt. Alternatively, in years of significant gains, governments may overspend on services because of the additional perceived benefit - spending that is not sustainable over the long-term. Ultimately, this will lead to short-term decision making (i.e. what can government do to control the volatility in net debt) over doing what's best for the government, its employees, and the public, in the long term.

All options presented within the ITC will cause the volatility in net debt to be overstated due to the swings in gains and losses. Real exposure to financial risks will not be reflected, which will reduce the

understandability and relevance of our reporting. As mentioned above, the artificial volatility and resulting public perception, will drive, or unduly influence financial risk management decisions. The only way to avoid this is through using the current method, where a net liability or asset is presented on the balance sheet. Although deferrals are netted against the obligation, additional information on the impact of deferring the actuarial gains and losses is presented to readers through note disclosure. This disclosure outlines the current value of the benefit obligation and all gains and losses are disclosed separately.

We firmly believe that public sector accounting standards should reflect the economic substance of transactions through recognition and disclosure and should not drive policy decisions. Deferring gains and losses and not allowing these to immediately impact net debt allows time for governments to evaluate and make proper decisions regarding employee benefits and the affordability of services, as opposed to knee-jerk reactions to one time swings or events. Since Government's goals and reality are fundamentally different from the private sector, it makes sense to have different standards as well; deferrals are appropriate since amortization tends to normalize and smooth out significant artificial volatility (both positive and negative); volatility, that could lead to short-term decision making that is not in the best interests of the public.

Consideration should also be given to the impact that the standard may have on key performance indicators, such as: net debt, accumulated deficit, and the proposed net result of services/programs and comprehensive financial results.

Finally, we looked at the potential impact that a change in this standard may have on our financial statements. The Province of Nova Scotia currently records liabilities for about 30 benefit plans directly, and picks up another 25 plans (roughly) on consolidation. Looking at one pension plan in isolation, if no gains or losses were deferred this would have resulted in additional swings from (\$163m) loss to \$146m gain over the past 4 years, a range of \$309m. These swings would have had a 1.08% (increase) and 1.05% (decrease) impact on net debt respectively, and equal impacts on net debt per capita.

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

No.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

No. Amortization over the expected average remaining service life (EARSLS) remains the most logical choice for actuarial gains and losses. This method is supported by the rationale that employees are still expected to work this length and will continue to earn the benefit over this period. Amortization of unexpected returns on plan assets over five years is also the logical choice. GASB specifically states a 5-year deferral since this time-period represents the general market cycle. Choosing this basis for amortization reduces the amount of swings in the market value of assets that tend to offset throughout this cycle period.

We feel that PSAB should include the 5-year rationale to its standard, using similar wording as GASB, to better explain the reasoning behind this deferral provision.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

No.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

No.

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

Current recognition methods are sufficient. Actuarial gains and losses arising from changes in assumptions, experience, or from changes in market value should be included in a net liability amount reported on the balance sheet and amortized to reflect the long-term nature of the benefits earned. Past service costs arising from plan amendments, etc. should be recognized immediately as it relates to service previously earned and previously expensed. Plan amendments, and the causes for most past service costs, are controllable by the Government through plan management and are typically reflective of the decisions made relating to the plan benefits. As mentioned, changing to a different format of recognition will result in overstated volatility in key metrics such as net debt. This will cause governments to make decisions based on immediate accounting results, rather than what is best for the long-term.

12. On what basis should plan assets be valued?

Plan assets should be valued on a market-related value basis with the current 5-year deferral provision. This basis reduces the impact of market fluctuations, smooths results, and provides stability in the related expense as opposed to the extreme volatility from market prices (which are at a point in time and therefore subject to much higher volatility). Again, this is reflective of the long-term focus of these dedicated assets segregated into trusts to pay pensions. Also, we are not looking to show the value of assets on a current or liquidation basis because in the normal course of business there is the assumption that the plan is a going concern.

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Our current practice is to measure plan assets at market-related value. This value is determined by calculating the anticipated rate of return on plan assets and smoothing the difference between the

anticipated and actual return during the year. The anticipated rate of return used is the plan's discount rate, which is also the anticipated long-term rate of return for the funds.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Post-employment benefits that do not vest or accumulate are treated as event-driven. Our policy is to recognize gains and losses immediately arising from these plans. The rationale for this is that a liability is not recorded until the event that obligates the Province occurs. These benefits are not earned the same way as benefits offered by a pension or retirement health benefit plan - but are the result of a specific event. The resulting entitlement and payouts are immediate. With no multi-year future period over which the benefit will be earned, there is no extended period over which to amortize any resulting gains and losses.

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the “Background to the project” section (page ii) that PSAB should consider in this project?

We feel as though the recording of a liability for sick leave benefits that accumulate but do not vest should be removed from the scope of PS 3255. Because there is no payout (the employee must actually be sick to get the benefit), this should be accounted for as an event-triggered benefit when it occurs (employee is sick), not when additional sick time is added to an employee's bank. If this requirement were removed, accruals would not be necessary since amounts would be expensed in the period the employee uses the sick time and is paid. Not only is this more appropriate in terms of reflecting the period in which the expense triggering event is incurred, but it will also significantly reduce the need for costly external actuarial valuations.

PSAB should also include guidance regarding shared risk pension plans within the standards. Several jurisdictions have converted DB plans to the shared risk structure, and due to a lack of specific guidance, the result has led to varied accounting treatment amongst the provinces and a divergence in auditor opinions. Where these important benefit plans are being constructed based on interpretation of accounting rules, it would be helpful to have a consistent interpretation.

PSAB should also ensure that users are aware of the rationale for specific items (either within the standard or more appropriately in the basis for conclusions), such as the use of 5 years as the period to adjust for market related values (it could be explained that 5 years represents the general market cycle). Rationale for such specifics would assist in proper and consistent interpretation of the standard.

PSAB should also clarify the attribution period for actuarial cost methods. Current standards are vague regarding the start and stop points of the projected benefit method prorated on service. Other standards are very specific regarding this, such as ASPE section 3462.040 which states “the attribution period ends at the full eligibility date when additional benefits are no longer earned by rendering further service.”. Similar wording was also part of former CICA 3461. It has been our experience that actuary

firms have interpreted PSAB's cost methodology several different ways therefore leading to inconsistency.

Because the conceptual framework project is still ongoing we feel as though it is inappropriate to significantly change the overall standard, given that fair value measurement and removal of deferrals may set precedents and/or conflict with the overall conceptual direction of the pending PSAB framework. It may also lead us to choose a conceptual framework that is consistent with our current standards, rather than the other way around.

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

We would be interested in participating in future field tests depending on the availability of information, the amount of resources required, the timing of requests, and the associated costs.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Geoff Gatien".

Geoff Gatien

Associate Deputy Minister & Controller

Auditor General of New Brunswick

Response to PSAB PS 3250 & 3255 ITC

Question 1

Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes, we believe PSAB should consider whether deferral provisions are appropriate. We expect the result of this work would aid in increasing comparability and understanding of financial reporting in the public sector.

Question 2(a)

Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

We believe it is acceptable to consider all actuarial gains and losses without separating certain components, as this would enhance users understanding and simplify the financial reporting process.

Question 2(b)

Are there any additional components that should be separately identified and considered?

None that we have identified.

Question 3

Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

We believe the “realized and unrealized gains and losses” method is more appropriate as the underlying information is based on more concrete data and has less risk of management manipulation. Also, it is consistent with the accounting treatment of other financial assets measured under PS 3450.

However, we find this accounting question somewhat premature given the ongoing conceptual framework development. Ultimately accounting standards proposed for PS3250 and PS 3255 will need to be congruent with the approved conceptual framework.

We would also add that the performance of government is often measured based on its financial results. We believe the reporting within government financial statements needs to be understandable, transparent and comparable so that government can be held to account for its performance.

Auditor General of New Brunswick

Response to PSAB PS 3250 & 3255 ITC

A broader analysis would need to consider which change in asset components are controlled or managed by government and which are not. We believe unrealized gains and losses resulting from remeasurement should be separately presented in the financial statements to isolate items over which government has no control, which would also reduce volatility in reporting of government financial results.

Question 4

Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

See response at question # 3.

Question 5

Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

None that we have identified.

Question 6

Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

None that we have identified.

Question 7

Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

None that we have identified.

Question 8

Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

None that we have identified.

Auditor General of New Brunswick

Response to PSAB PS 3250 & 3255 ITC

Question 9

Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

None that we have identified.

Question 10

Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

In the public sector, where government performance is in part assessed through financial information, we believe some of the primary users of financial information are the public and elected officials. The accounting inherent in a deferrals-based approach brings added complexity to the financial statements that may impact users' understanding of the information contained in the financial statements.

Question 11

How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

We believe immediate recognition is the simplest approach as it provides to users the most transparent and up to date information. We do not believe the deferral approach should be considered because of the complexities involved which impact users understanding of the financial statements.

However, as noted in question #3 we are also concerned about ensuring the outcome of the conceptual framework development is congruent with the direction of the employee benefits standards, and are also concerned some of the analysis may be premature until the conceptual framework is approved.

We believe, with reference to the conceptual framework, separating remeasurement items from net results would be a valuable approach to consider, in order to isolate within the financial statements volatile amounts over which the government has no control. This would allow for government to be more effectively held accountable for its performance, which we believe is a key aspect of financial reporting in the public sector.

Question 12

On what basis should plan assets be valued?

We believe market value is most appropriate as it is the most concrete and less complex.

Auditor General of New Brunswick

Response to PSAB PS 3250 & 3255 ITC

Question 13

Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

No response as we do not prepare financial statements.

Question 14

What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

No response as we do not prepare financial statements.

Question 15

Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

None that we have identified, however, there are a number of important pension accounting questions for our office related to shared risk pension plans which are not considered in this project.

Wayne Morgan
Office of the Auditor General of Alberta
Edmonton, Alberta

February 28, 2017

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear PSAB,

My response to PSAB's Employment Benefits: Deferral Provisions in Sections PS3250 and 3255 Invitation to Comment is below.

1. *Do you agree that PSAB needs to consider whether the deferral pensions in the standards are appropriate?*

The main reason PSAB has provided for reconsidering the deferral provisions is that other standard setters have moved away from such provisions. The issues in Phase I seem to be highly technical but probably are not important considerations within the topic of employment benefits, compared to Phase II topics (shared risk plans), or more fundamental questions regarding pensions, such as whether they should be netted or fully consolidated. There are several areas probably more important than the deferral provisions where PSAS are incomplete compared to other standard setters' which would probably be more useful if PSAB wishes to "keep up" with other standard setters, including endowments, intangibles, and biological assets.

Furthermore, as the ITC mentions, public sector entities are fundamentally different from other entities. This is why they have their own applicable financial reporting framework, either in Canada or internationally. While these fundamental differences do not influence accounting in several areas, pension accounting is probably where the fundamental differences are most relevant. The going concern nature of public sector entities is very strong support for accounting that takes a longer-term view rather than focusing on each period. The argument in the ITC that some public sector entities filed for bankruptcy due to pension deficits is probably spurious – it probably isn't clear whether the underlying cause was instead inadequate costing, inadequate taxation, deterioration of the economic base, or austerity; more importantly the observation that some public sector entities declare bankruptcy would be an argument that public sector entities should use exit values or insolvency accounting, which is not reasonable.

Within pensions, PSAB should take this opportunity to define what are the appropriate objectives of pension accounting for public sector entities. PS3250 explains the objectives but they may not be relevant anymore; perhaps solvency of the plan is more important to retirees, or adequacy of funding is most important to current members facing contribution increases, or the cash flows that the public sector entity will need to pay into the plan in the next few years is more important to creditors to assess ability to repay debt, or perhaps cash contributions required in the next few years is most important because of budgetary considerations. While the objectives currently in PS3250 are good, they are too general to help determine the best accounting; given how complex pension accounting is there may be additional objectives that could inform PSAB's decisions on appropriate pension

accounting that should be clear before dealing with relatively narrow technical issues in PS3250 and PS3255.

It seems an important objective is to ensure the cost of operations of a public sector entity are appropriately measured. There is little debate that the cost of operations should include the current period benefit cost. Added to that are numerous adjustments as noted in PS3250.019, some amortized and some recognized in the current period. It would be useful for PSAB to conduct some background research to determine the relative size of these other items to current period benefit cost; I suspect they are either rare (for each plan) such as plan amendments or immaterial compared to the current period benefit cost. In other words, it probably makes little difference whether they are either recognized in the current period or over EARS. What is probably more important is that PS3250 has made it clear how these various components should be accounted for, achieving comparability and consistency across public sector entities. There are few standards where PSAB has been so prescriptive: liabilities for contaminated sites didn't specify exactly which monitoring costs to include nor did tax revenue standard specify exactly which exemptions and deductions and features of the tax regimes in Canada should be accounted for and in which ways. The specificity in PS3250 and PS3255 is both necessary and desirable.

I also encourage PSAB to look at employment benefits more holistically. Rather than catching up to other standard setters, instead develop leading employment benefits accounting standards that other standard setters may look to. There are several other topics relevant to employment benefits that PSAB could consider, including:

Salary and benefit disclosure. This is currently an extremely popular disclosure amongst public sector entities of great interest to the public yet PSAB has issued no standards in the area. PSAB could research what salary and benefit disclosure is best in terms of disclosures of senior management compensation or overall workforce information, full time equivalent information, unfilled vacancy information, pay bands and average wages. A standard on disclosure of employee expense allowances and other non-salary allowances would also be helpful given the importance and attention such disclosures receive.

Salary expense by object. Salaries and wages are probably the largest expense by object of public sector entities. Clarification of what should be included in this object would be useful. For example, should it include payments for temporary or contract staff? Should it include pension expense, or only the "normal" contributions but not special payments? What workforce disclosures are useful to understanding the salary and expense object, such as full time equivalents? Or details about sick leave provisions (i.e. a continuity of leaves granted, taken, remaining)? Or terms of major contracts, such as contractual obligations to unions or management? What information about probably the single largest expense of public sector entities provides the best accountability and transparency?

2. a) *Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?*

It is difficult to distinguish among the components of the changes in value of the accrued benefit obligation in ways that would meaningfully change how they are accounted for. Nevertheless, it is useful to retain these in the standard because it still makes it clearer what are components of pension costs.

- b) *Are there any additional components that should be separately identified and considered?*

No.

3. *Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?*

The distinction from an accounting perspective between expected and unexpected return is difficult to maintain. All expectations of the future inherently (although perhaps not explicitly) would incorporate an unexpected (low probability) event. The concept is not far from the concept of “extraordinary items” in the statement of operations, which is generally no longer accepted.

The realized and unrealized method is consistent with PS3450 and is more objective given it is based on occurrence of particular events.

I note that PSAB should consider first whether the pension plan assets should be presented separate from the accrued benefit obligation. If plan assets are presented separately (perhaps in their own caption in financial assets) then the realized and unrealized method is even more preferred, because it is consistent with the treatment of other financial assets of the public sector entity. It seems that it is only when the plan asset will be netted against the accrued benefit obligation is it more logical to use the expected and unexpected return approach, because it then allows deferral of the unexpected returns as actuarial gains or losses, which is more appropriate because the overall net number on the statement of financial position is seen as one overall long-run estimate.

4. *Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?*

PSAB should consider in general whether the netting involved in pension accounting is appropriate. With respect to investment return component, PSAB should explain why the investment return is not simply “investment income” and included with all other investment income of the public sector entity that is recorded on the statement of operations or if unrealized on the statement of remeasurement gains and losses. This is the most theoretically pure treatment of the investment return and is more in accordance with PS1201.83 and .85 which require gross disclosures of revenues and expenses.

5. *Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?*

None noted.

6. *Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?*

It isn't clear why gross versus net presentation is appropriate, which illustrates the overall theoretical limitations with PSAS's approach to pension accounting and the limitations of looking at pension accounting in a phased approach. The best pension accounting for the items in this ITC can probably only be determined once the more important theoretical issues regarding pensions are resolved, including:

- should the gross pension asset and pension obligation be reported separately on the statement of financial position instead of netting them?
- what kind of “liability” is the net pension liability when it can reverse into an asset, there is no present need for it to be settled, and it likely will be funded by contributions of employers, employees and investment growth? Is it instead an indeterminable contingent liability or some sort of guarantee, neither of which are given accounting recognition until some event occurs?

- if it is appropriate to net the pension asset and accrued benefit obligation on the statement of financial position “because it’s all an estimate” then the smoothing also becomes much more justifiable. It seems inconsistent to accept the main assumptions based on long-term averages such as mortality but then argue that the pension estimate itself should be not “smoothed” via averages or amortization. In other words, immediate recognition is trying to force onto the overall pension number some sort of “actuality” when the pension number itself is based on many estimates and averages.

7. *Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?*

The treatment of these components similar to other changes in accounting estimates in accordance with PS2120 has some merit. However, it should be noted that it seems PSAS takes the approach that the entire pension number is an estimate – it is already netted, for example. Of course, each component is also estimated, such as demographic assumptions. But each component isn’t given gross accounting recognition, so the argument for consistent treatment with other accounting estimates is weak.

Put another way, what may be being confused is accounting for an overall estimate with how that estimate should be arrived at. To illustrate, a public sector entity may estimate a provision for tax refunds each year based on last ten years average of refunds, and as that estimate changes it appropriately records the changes in estimate in accordance with PS2120. But this “last ten years” approach is conceptually similar to amortizing actual tax refunds of each year over a ten-year EARSLS; the “last ten years” results in a smoothing but also probably as good an estimate as any, as long as it is periodically back-checked to actuals and updated periodically if necessary. It is difficult to argue that estimating tax refunds based on “last ten years of refunds” is not in accordance with PS2120 and instead that actual refunds should be used, because of course actual refunds are not known which is why an estimate was necessary, as noted in PS3510.29. What is described as smoothing instead may simply be a reflection of the estimation method used.

8. *Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?*

Alternatives include amortizing until the next actuarial valuation or amortizing over the period of funding if there is a regulation relevant to the pension plan, or over the average life expectancy of the current members of the plan. More generally, as long as they are systematic and rational manner, it is probably not materially different nor theoretically resolvable which alternatives are better than EARSLS. EARSLS seems to have part of a solvency concept in it (it is as if no new members will join the plan and it is only the current active members that will be employed so these items should be amortized over that period) and also a matching concept in it (allocate the costs over the periods of service of the existing plan members).

9. *Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?*

None noted.

10. *Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120) and plan asset valuation options (paragraphs .121-.128) that have not been identified?*

Significant arguments are noted in responses to other questions.

11. *How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?*

The main choices as noted in the ITC are immediate recognition, no recognition or deferred recognition. This question would best be evaluated by first answering more fundamental questions regarding pension accounting, including whether netting pension plan assets and obligations is appropriate and whether pension plans for which the public sector entity is the guarantor of the defined benefit should be consolidated. If netting is not appropriate, then changes in plan assets will either follow historical cost approach with interest and dividends and gains on those assets as revenue, or will follow the fair value approach with changes as remeasurement gains and losses.

Gross presentation may help overcome issues associated with recognition of net pension plan assets when the plan is in a surplus position. A limitation of showing pension assets gross is that they are not available to discharge other liabilities and perhaps they would be a new category of restricted asset (similar to assets in endowments). Gross presentation may also help clarify which discount rate is appropriate to use, because the gross liability (accrued benefit obligation) would then be further separated from the pension assets and could be valued independently of plan assets.

If gross presentation is best on the statement of financial position, an important issue to resolve is whether the remeasurement gains and losses on gross pension assets would be better presented as part of pension expense (in the statement of operations) rather than in the statement of remeasurement gains and losses, where they should be reported to be consistent with remeasurement gains and losses on other financial instruments. PSAB could continue to exempt pension plan assets from PS3450, but then they would not be reported at fair value, and comparisons to the fair valued accrued benefit obligation would be more misleading. As the ITC notes, one alternative is to recognize unrealized and realized gain and losses on plan assets, rather than expected and unexpected return. If the unrealized/realized approach is taken, regardless of whether unrealized gains and losses become part of pension expense on the statement of operations because of amortization over EARS, or, because they are recognized immediately in the statement of surplus, these will represent a departure from the conceptual basis of PSAB's fair value revaluations, because transactions that are unrealized are included on the statement of operations. If these are recognized immediately but only in the statement of remeasurement gains and losses, then some may argue pension expense or pension interest expense is understated or overstated.

Similarly, changes to the accrued benefit obligation would perhaps follow changes in the various liabilities in PSAB that are discounted and may change over time, such as asset retirement obligations, liabilities for contaminated sites, and capital leases – i.e. immediate recognition, or some estimation approach where the underlying approach includes long-term averages.

If consolidation of the plan is appropriate, then PSAB will have to determine whether some modified equity approach is needed (similar to GBEs) or full consolidation with conforming adjustments. There is a lot of merit in modified equity consolidation, because it does not result in the public sector entity needing to convert from Part IV standards to PSAS, and more importantly the numbers in the plan financial statements agree to the numbers in the public sector entity's financial statements, enormously increasing understandability of the financial reporting. A modified equity approach also avoids some of the conceptual problems noted above regarding revaluations and treatment of unrealized gains and losses.

If neither consolidation nor gross presentation are appropriate, then it seems the objective of pension accounting is to somehow measure what may be the net liability of the public sector entity would be if it had to settle the plan now but use going concern not solvency assumptions, probably so that the

expense in the statement of operations is most accurate. This is like trying to estimate tax refunds using a 10 year average, and therefore some deferred recognition is appropriate – it recognizes the long term nature of the estimate and that some volatility is expected but that volatility should not impact users’ decisions, because there likely will be volatility (in the opposite direction) soon enough. Budgetary, operational and other systems likely cannot respond in a timely manner to excessive volatility; citizens would not appreciate their tax rates to go up by 3% one year to fund a pension loss then taxes to go down by 4% next year because there were actuarial gains, or schools or hospitals closed one year because of an anticipated pension loss that, given the long-term nature of pensions and public sector entities, will be funded over time probably by investment returns and employer and employee contributions. It is unclear what decisions would be made better by introducing such noise (“volatility”) into financial reporting.

12. On what basis should plan assets be valued?

If plan assets are consolidated and not netted against the accrued benefit obligation, they should be measured at historical cost or perhaps at fair value in accordance with PS3450 due to their financial assets nature, with a technical amendment to PS3450.003(f) which currently excludes pensions.

If the plan assets are not consolidated, and PSAB continues with a netting approach, then fair value is appropriate, although I suggest this with some hesitation because the accrued benefit obligation is not at fair value (mainly because it is discounted with reference to asset return) and therefore it seems illogical to net something at fair value against something not at fair value.

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Not applicable (not preparer).

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Not applicable (not preparer).

15. Are there any specific issues with, or related to, Section PS3250 and PS3255 that have not been identified in the “Background to the project” section (page ii) that PSAB should consider in this project?

I noted above the importance of defining objectives for pension accounting. These objectives can guide PSAB in determining appropriate accounting standards for pensions. I also noted that important conceptual issues should be dealt with before the narrow technical issues in Phase 1. These important conceptual issues may be resolved in part by PSAB’s Conceptual Framework Task Force, or if they are not within the scope of that task force, should be dealt with first before dealing with other aspects of pension accounting. These include:

- whether it is appropriate to net the pension assets with the accrued benefit obligation. More directly, what is the information relevance of reporting liabilities that may turn into assets simply with the passage of time or if the returns on the pension plans’ assets are good, without requiring any additional cash outlay from the public sector entity? What is the information relevance of reporting net pension assets that may turn into liabilities if stock markets drop?
- it seems clear if the public sector entity self-sponsors the defined benefit pension, then it records the accrued benefit obligation, but if the pension is in a separate trust and there is no defined sponsor, in substance should it be considered controlled and therefore consolidated,

perhaps using modified equity methods? Alternatively, if the pension is in a separate trust then perhaps the public sector entity only has a contingent liability for future contributions owed to the trust or some guarantee that may be exercised in the future by the trust. This is already in PS3250, but the statement in PS3250.007 that a careful reading is necessary to determine whether a liability, contractual obligation or contingency exists is then collapsed to what is referred to as a “promise” as the underlying concept in PS3250.015; they are all promises but only one merits accounting recognition.

It is important for PSAB in Phase II to consider not only shared risk plans but also joint-sponsored plans or multiple-sponsor plans. The current distinction between multiemployer and multi-employer in PS3250 seems to be whether separate accounts for assets are maintained. A more conceptual approach would consider whether each participating entity within these types of plans should use defined benefit accounting, notwithstanding potential measurement or allocation problems if separate plan assets accounts are not maintained, when a reasonable estimate or allocation of plan assets can still be made.

On a more technical level, one matter PSAB could deal with is with respect to government components and pensions. The Introduction to public sector accounting standards directs government components to apply the standards for governments. PSAB could consider technically amending PS3250 because it is unclear whether the word “government” should be replaced with “government component” throughout PS3250. For example, does the government component need to have made the “promise to employees” to record pension liabilities? Or should each government component record pension liabilities because they are an integral part of the public sector entity that sponsors the plan?

16. *Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?*
Not applicable (not preparer).

Thank you for the opportunity to comment.

Sincerely,

Wayne Morgan, Phd, CPA, CA, CISA

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255

Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name:

Organization:

E-mail:

General comments:

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

We support the decision to review the current deferral provisions in the standards. This is based on the loss of understandability that can be created by deferral of actuarial gains and losses, and the positions taken by other accounting standard setters. Given the unique nature of government reporting and accountability; however, we feel that approaches taken in other standards may not necessarily be appropriate for the Canadian public sector, and this difference must be given consideration. Being able to budget the use of tax-payer money effectively, and report on how it was used should take precedence over reporting the impact of temporary gains or losses that are based on estimates, and that are likely to change or correct in future periods. Further, we understand the approach taken to divide the employment benefits project into phases due to its size; however, we are concerned about working in isolation from future phases of the project as well as the uncertainty as to what changes to the conceptual framework may be made.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

We feel that the justification in PS 3250 for recognizing actuarial gains and losses over a reasonable future period could be the basis for determining which items could be viewed separately. Items that are temporary in nature and likely to require further adjustment in future periods are fundamentally different from items where these two aspects do not apply.

For the accrued benefit obligation, assumption changes are generally not considered temporary, and while some future adjustment may be likely, the extent could not be determined (or it would already be factored into the current assumption). These assumptions form management's best long-term estimate of the liability. Significant experience gains and losses that arise may be an indication that long-term assumptions are not accurate, or may be related to one-time events. Less significant experience gains and losses may simply be temporary fluctuations around the assumption that could be expected to "correct" in future periods.

For the assets, assumption changes would also not be considered as temporary for the same reasons given for the accrued benefit obligation. Experience gains or losses; however, could be considered temporary, with correction to occur in future periods due to cycles in the markets.

2b. Are there any additional components that should be separately identified and considered?

None identified

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

We feel that the realized and unrealized method is not relevant for a government's financial statements. Pension assets are typically always invested in marketable securities, or items that require an estimate for valuation (with the exception of cash and cash equivalents). Reporting a realized gain may show that investments have been sold at a profit, but the proceeds could remain invested. This type of reporting may be more appropriate for pension plan financial statements.

Using the expected and unexpected approach has more relevance to a government as it simply identifies the expected return based on the investment policy and long-term economic assumptions, and the amount of return that deviates from what was expected and budgeted.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

None identified

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

The difference between expected and actual investment returns is significantly more volatile than any other actuarial gain or loss.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

None identified

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

None identified

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

EARSL only considers the active members of a plan. Actuarial gains and losses also relate to changes in the accrued benefit obligation for retirees.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

None identified

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

Governments need to be able to effectively budget and report on spending to tax-payers. Governments need to be able to report on the things for which they are accountable in an understandable format. A statement of operations that has significant uncontrollable volatility makes this problematic for both budgeting and understandable reporting.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

We do not support immediate recognition in the statement of operations of actuarial gains or losses that are expected to be only short-term in nature because they correct over the long-term by way of additional fluctuations. This is due to the challenges of being able to include these significant fluctuations in the budget process, and introducing significant volatility in reporting. These aspects reduce the use of government financial statements for the purpose of accountability. The recycling option mitigates (but does not eliminate) the short-term volatility, while ensuring that all gains or losses are eventually recorded in the statement of operations. The no recycling option eliminates any volatility in the statement of operations from these short-term fluctuations; however, we are concerned that some amounts may never be reversed by correction, or realized in some other way. The ongoing nature of the pension plan does not allow for eventual realization similar to foreign exchange gains or losses on debt.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

All provincial plans value assets at market value.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Immediate recognition. Only relates to the liability for injured workers, which is an unfunded liability to the Province.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the “Background to the project” section (page ii) that PSAB should consider in this project?

How the deferral provisions will impact the asset impairment treatment. Specifically, if the no recycling option is chosen.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Yes, but the Province’s major pension plans are target benefit plans, which may be more beneficial in a later phase of this project.

[Click here to submit](#)

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255
Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name:	Larry Guthrie
Organization:	Simon Fraser University
E-mail:	larry_guthrie@sfu.ca

General comments:

Executive Summary

Employee benefits deferral provisions in accounting standards for the public sector can and should be different than for the private sector as public sector institutions are low risk, substantive, regulated and have statutory funding which effectively provides for institutional life in perpetuity.

The accounting standards must be cognizant of: the public's single measure perspective of financial performance; induce sound financial practices; and eliminate disruptive volatility that destabilizes public service programs and economic activity. In particular, balanced budget legislation is a fact of life for many Canadian public sector organizations and accounting standards should respect this reality.

For these reasons, we propose that all changes in actuarial assumptions and experience adjustments in the determination of the accrued benefit obligations and plan assets should be:

- Immediately recognized in the statement of financial position (Rationale: To present the fair value current situation);
 - Deferred and amortized in the statement of operations (Rationale: To have the single measure of financial performance used by the public, annual surplus/deficit, be meaningful and manageable and to enable systematic funding and stable public service program delivery);
 - The deferred portion of gains/losses being a component of accumulated surplus/deficit similar to Remeasurement gains/losses (Rationale: To clearly communicate the accumulated gains and losses that will need to be absorbed in operations in the future);
 - Amortization over the expected remaining service life of related employees (Rationale: To have it addressed in fiscal planning); except for
 - Closed plans amortization over lesser of expected average settlement period or 5 years (Rationale: So that overly long amortization is not applied to plans without active service being provided); and
 - Event-driven entitlement plans be immediately recognized (Rationale: To recognize the nature of the plan's liabilities.)
- Plan assets should be measured at market value (Rationale: To communicate current fair value).

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

No business case has been provided to justify a need for change in the context of evolving Canadian: employee benefit plan structures, legislation and user information needs. Each paragraph of the "Need For Review" section considers only "other standard setters". Their context and user needs may be different than ours. This is not our highest priority as other areas are not addressed at all. Nevertheless, having made a substantial investment to reach this point, some value should be realized from the expense incurred.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

The current reporting requirements provide sufficient, and perhaps too much, detail.

- 2b. Are there any additional components that should be separately identified and considered?

No additional components identified.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

The Statement of Operations should account for the investment return component of the changes in the value of plan assets on the expected value basis. Rationale: This eliminates volatility in investment returns impacting financial performance and aids in compliance with balanced budget legislation.

The Statement of Financial Position should account for the value of plan assets on an actual return basis; being both expected and unexpected components whether realized or unrealized. Rationale: The value of assets is aligned between the employer/sponsor and the plan's financial statements. Furthermore, it is the easiest to understand for readers and the best representation of value.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

No other alternative identified.

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

Paragraphs 26, 28, 31, 33, 46 & 49 speak of changes that "normally/usually/generally do not change significantly". These statements are laying the foundation for an immediate recognition methodology. We disagree. Rationale: Changes do happen that have a significant impacts on plans and host organizations. Recognizing changes which accumulated over multiple periods in a single fiscal period disrupts financial measurement and programs in the current year. Paragraph 38 identifies two scenarios of: (a) a funded or partially funded; and (b) unfunded. The discount rate is then determined as: (a) expected return on plan assets; or (b) cost of borrowing. Third scenario: We have investments that are

held to fund the plan liabilities; but they are not in a separate entity. Recommendation: Related investment assets should have their expected rate of return utilized. Rationale: To record the real expense; otherwise we are overstating the cost of operating these plans.

Paragraph 38 directs determination of the discount rate to the cost of borrowing for unfunded plans. Since we are prohibited from borrowing, this is not a real rate for us.

Paragraphs 37 to 52: The discount rate assumption and other economic assumptions have relationships in underlying factors and should be consistent in their foundation.

Paragraphs 60 to 62: A sound rationale is not presented for segmentation of realized and unrealized gains and losses. Since marketable securities may be realized at any time, differentiating what has been realized and recognized versus not, does not add information value. A dividend re-invested does not change the risk profile. Investment managers should not be driven to realize gains or losses for accounting presentation reasons.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

Paragraph 85 references government bankruptcies in the US as relating mainly to pension deficits. This reference is not valid. Canada has different legislation with respect to governments and pension plans, our risk factors are dramatically reduced. The comment should not stand unless there is a deep understanding of the causes of the US issues.

Paragraph 87: Deferral does not necessarily mean that an entity is not being transparent and accountable. Additionally, balanced budget legislation is a real requirement in many cases and a public expectation in all cases.

Paragraph 89: In a jointly trusted plan, the employer often cannot exercise control over plan governance.

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

Paragraph 120: Recommendation: Follow-through on the logical path it has started to define an alternative where unamortized gains/losses could be separately accounted for as a component of accumulated surplus/deficit in a manner similar to Remeasurement gains and losses. Rationale: The net benefit asset/liability amount would provide current data and the unamortized gain/loss would be clearly visible.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

Paragraphs 110 to 114: No additional amortization alternatives have been identified.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

Paragraphs 121 to 128: No additional plan asset valuation alternatives have been identified.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

Recognition in statement of operations:

(i) Paragraph 98 on immediate recognition acknowledges that this will introduce volatility to financial results; but the comments fail to acknowledge the impacts of the results.

- The public and media generally use only one measure of institutional financial health, equilibrium and sustainability, the annual surplus/deficit. When volatility inevitably occurs, this measure will generate major negative feedback to

management, the accounting profession and the PSA Board.

- Increased volatility in annual surplus/deficit will increase pressures for aggressive spending/arbitrary cuts which will destabilize programs in a manner that does not serve the public interest.
- Institutions subject to balanced budget legislation could have significant compliance issues arise from the introduced volatility in annual financial results.
- Budget allocations to operationalize volatile measures would be difficult to achieve and could adversely impact program delivery.

(ii) Paragraph 102 on no recognition should record as a disadvantage that having no impact on annual surplus/deficit would mean that there would be no recovery of surplus/application of deficit to the annual budget; in particular, in the situation where an institution has an annual balanced budget requirement.

(iii) Paragraphs 113 & 114 on recognition of unrealized gains and losses on plan assets have additional dimensions to consider.

- Market values of investments are observable. One does not need to rely on actual transactions to have an observable event. An investment that had been made with Warren Buffet at the beginning of his career and held throughout should not be tarnished as being unrealized.
- Not recognizing unrealized gains and losses can lead to bad investment management practices to produce realized results.
- The management of investments should not be a technique to produce annual operating financial results.

Recognition in statement of financial position needs to address the benefits of having a separate component of accumulated surplus/deficit as identified in the response to questions 7 regarding Paragraph 120. This would enable the net liability/asset to be stated without the inclusion of unamortized elements.

Plan asset valuation alternatives are well stated.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

All changes in actuarial assumptions and experience adjustments in the determination of the accrued benefit obligation and plan assets should be:

- Immediately recognized in the statement of financial position;
- Deferred and amortized in the statement of operations;
- The deferred portion of gains/losses being a component of accumulated surplus/deficit in a manner similar to remeasurement gains/losses;
- Amortization over the expected remaining service life of related employees; except for
- Closed plans amortization over lesser of expected average settlement period or 5 years.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

12. Plan assets should be valued at market as the best measure of value.

13. Plan assets are valued at market.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Post-employment benefits actuarial gains and losses are deferred and amortized over the estimated remaining service life of the related active employees. Rationale: this aligns with the provision of service; enables orderly budget funding;

reduces volatility impacts on program delivery; and facilitates our ability to comply with balanced budget legislation. Compensated absences that do not vest or accumulate (long-term disability) have actuarial gains/losses recognized immediately as benefit entitlement is event based.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the “Background to the project” section (page ii) that PSAB should consider in this project?

We have some benefit plans where we hold investment assets to satisfy those obligations; but they are not segregated into a joint trust plan. This results in the discount rate being set with reference to government borrowing costs which is substantially less than the return on the related investment assets. The result is that the low discount rate overstates the obligation. We would prefer to establish the discount rate in relation to those investment assets. This would reduce an overstated liability and annual expense.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

We are prepared to consider participating in a field test on a confidential basis as we have multiple plans and a range of complexities. We have discussed this with our two actuarial firms and external auditor. This response was collegially prepared as the perspective of Simon Fraser University.

[Click here to submit](#)

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255
Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name:

Organization:

E-mail:

General comments:

We should focus on the needs of the readers of the financial information, and especially, employees and unions, given the matter concerns Employee Benefits. Plain language is therefore paramount, because most key readers are not accountants. The accounting methods used for disclosure should provide a faithful representation of an entity's defined benefit obligations, as employees and unions need to know whether the plan will eventually face a deficit, and lead discussions to ensure timely strategies are put in place to correct the situation.

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes, such an assessment is timely and should be done regularly.
Actuarial gains and losses should be recognized in Canada, either by the immediate recognition method, or deferred. I prefer the deferred approach, as the actual gain or loss only occurs when the asset is disposed/sold.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

They should all be disclosed separately for greater clarity, and decision-making.

- 2b. Are there any additional components that should be separately identified and considered?

Yes, if possible:
(A) The anticipated unemployment rate, which does not impact salary level, but total salary on which benefits are based.
(B) The anticipated trend in investment asset values (usually this could be forecasted as known to be cyclical - economic

cycles are predictable, or we could use actuarial assessments based on Canadian economy over the last, say, 50 years. Since we have at least 50 years of economic cycles in our history, some estimates, and disclosure should be accounted for.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

The Realized and unrealized gains and losses, as more conservative, and less speculative, as well as less arbitrary and subjective as stated.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

No, The Realized and unrealized gains and losses is the best, it is simple, well understood and proven.

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

As stated, perhaps modelling on the last 50 years economic cycle history, to anticipate huge downturns if possible, and disclose their impact in the footnotes only. The Bank of Canada is a good source of information for estimates of the like.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

Nil

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

Nil

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

No, here is my preferred: Others argue that unrealized gains and losses on plan assets are of a similar nature as a change in the fair value of financial instruments and, therefore, should be accounted for consistently. This would mean that unrealized gains and losses would be recognized in the annual surplus/deficit when the asset is sold or settled. Recognition of deferred gains and losses in the annual surplus/deficit based on an observable transaction would be objective.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

Impact of anticipated economic cycle should be considered.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

Nil

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

Best would be a separate note, with detailed disclosure for the current and previous fiscal year.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

N/A

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

N/A

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

Nil

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Not at the present time.

[Click here to submit](#)

March 2, 2017

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2
ed.psector@cpacanada.ca

Re: Invitation to Comment on Employment Benefits: Deferral Provisions in PS 3250 and PS 3255

Dear Mr. Puskaric,

We have read the above-mentioned Invitation to Comment that was issued November 2016 and are pleased to have the opportunity to provide responses to PSAB's specific questions.

Please find our responses to the proposed questions attached following this letter. This response was prepared by the Colleges Ontario Finance Officers (COFO) organization in conjunction with Administrative Services Coordinating Committee (ASCC), on behalf of the 24 Colleges of Applied Arts and Technology in Ontario, and has been discussed and shared with the Ministry of Advanced Education and Skills Development staff.

Thank you for your consideration of our responses.

Yours sincerely,



Kelly Morrow, CPA, CA (on behalf of COFO)
Chair of Financial Reporting Subcommittee, Colleges Ontario Financial Officers
Associate Director, Financial Services
The Humber College Institute of Technology and Advanced Learning
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Colleges Ontario Financial Officers – Financial Reporting Subcommittee

RESPONSE TO INVITATION TO COMMENT

EMPLOYMENT BENEFITS: DEFERRAL PROVISIONS IN PS 3250 AND PS 3255

- 1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?**

Yes, reviewing and reconsidering accounting standards on a regular basis to determine whether they are still appropriate given the ever-changing nature of business, economy and standards in other sectors is appropriate. Given that many public and private sectors accounting standards bodies have reviewed and revised their employee benefits standards, it would be prudent for PSAB to do the same.

- 2. (a) Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?**

Ontario Colleges believe that changes in actuarial assumptions and experience adjustments (which form part of overall actuarial gains and losses) should be considered separately from other changes in the value of the accrued benefit obligation. Changes in actuarial assumptions and experience adjustments represent adjustments to accounting estimates and should be treated in a similar manner, however, they should be considered separately from other changes that impact the value of the accrued benefit obligation because of their tentative nature and the likelihood for further adjustments in the future. Considering the changes in actuarial assumptions and experience adjustments separately from other components for the changes in the value of the accrued benefit obligation would be consistent with other accounting standards and increase comparability with College counterparts.

- (b) Are there any additional components that should be separately identified and considered?**

No, Ontario Colleges do not believe there are any additional components of the changes in the value of the accrued benefit obligation that should be separately identified and considered.

- 3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?**

Ontario Colleges believe that the accounting treatment for changes in the value of plan assets should be consistent with the accounting treatment for changes in the accrued benefit obligation and as such, the investment return component of the changes in the value of plan assets should be broken down into expected and unexpected return on investments (i.e. the difference between actual and expected). This view would be consistent with other accounting standards and increase comparability with College counterparts.

It is important to note, that although Ontario Colleges prefer the expected and unexpected return on investment breakdown, one of the main drivers behind this view is that it is essentially applying the same accounting treatment to the changes in value of plan assets and changes in accrued benefit obligations. If the investment return component of the changes in the value of plan assets were to be broken down into realized and unrealized returns, similar and consistent treatment should be used to account for the changes in the accrued benefit obligation.

- 4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?**

No, Ontario Colleges do not believe there are any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered.

- 5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?**

No, Ontario Colleges do not believe there are any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that have not already been identified.

- 6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?**

No, Ontario Colleges do not believe there are any additional significant considerations that have not already been identified.

- 7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?**

No, Ontario Colleges do not believe there are any additional alternatives that have not already been identified.

- 8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?**

No, Ontario Colleges do not believe there are any additional alternative amortization periods that have not already been identified.

- 9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?**

No, Ontario Colleges do not believe there are any additional alternatives for valuing plan assets that have not already been identified.

- 10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?**

No, Ontario Colleges do not believe there are any additional significant arguments related to recognition alternatives and plan asset valuation options that have not already been identified.

- 11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?**

As per paragraph .017, changes that are recognized when they arise (such as current and past service costs, interest cost on benefit obligation, benefit payments, gains and losses on plan curtailments and settlements) are outside the scope of this invitation to comment, and as such, the Sector has refrained from commenting on those changes that are recognized when they arise.

With respect to changes in the value of the accrued benefit obligation, as described in the Sector's answer to question 2(a), Ontario Colleges believe that changes in actuarial assumptions and experience adjustments should be recognized immediately in the related defined benefit liability or asset on the statement of financial position and should be recognized outside of annual surplus/deficit (for Ontario Colleges, this would be excess (or deficit) of revenues over expenses) in other comprehensive income (for Ontario Colleges, this would be in the statement of remeasurement gains and losses) when they arise or in subsequent periods, with no recycling.

As described in the Sector's answer to question 3, with respect to the changes in the value of plan assets, Ontario Colleges believe that expected returns and market value fluctuations should be recognized immediately on the statement of financial position and unexpected returns should be recognized outside of annual surplus/deficit (for Ontario Colleges, excess (or deficit) of revenues over expenses) in other comprehensive income (for Ontario Colleges, the statement of remeasurement gains and losses) when they arise or in subsequent periods (no recycling).

The College Sector position, as explained above, is consistent with Canadian private sector not-for-profit standards and international public and private sector standards.

Ontario Colleges place emphasis on applying the same accounting treatment to the changes in value of plan assets and changes in accrued benefit obligations. If changes in the value of the accrued benefit obligation were to be recognized using the immediate recognition in annual surplus alternative, then changes in the value of plan assets should also follow this method, not another alternative such as deferred recognition in annual surplus (recycling).

The Sector agrees with paragraphs .086 and .088 with respect to budget reporting and accountability requirements. Although the Sector is not required under PSAB to disclose budgetary information on the statement of operations, the Sector recognizes the fact that reflecting the volatility of the changes in the value of the accrued benefit obligation and plan assets in annual surplus/deficit (for Ontario Colleges, excess of revenues over expenses) would create a challenge for entities that present budgeted figures. Ontario Colleges agree that changes in the accrued benefit obligation and plan assets cannot be budgeted for or managed in the short term, and the effect of which can be significant.

Using the "no recycling" alternative would allow for the recognition of the changes in plan assets and accrued benefit liabilities directly in net assets instead of through annual surplus/deficit (for Ontario Colleges, excess (or deficit) of revenues over expenses), reducing budgetary pressures and potentially suboptimal planning decisions, as well as removing annual surplus or deficit volatility that is outside of the government's ability to be accountable for, which is the goal of budget vs. actual comparisons.

12. On what basis should plan assets be valued?

Ontario Colleges believe that plan assets should be valued at fair value. This approach would be consistent with the current available approach under PS 3450, *Financial Instruments*, and would result in greater accuracy of financial information as at the financial statement date as well as increased comparability with College counterparts.

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Other than plan assets held under a multi-employer defined benefit plan, which is out of scope for this invitation to comment and will be addressed in Phase II, Ontario Colleges hold only minimal plan assets for certain post-employment benefits. These plan assets are valued at market value.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Ontario Colleges do not have any post-employment benefits and compensated absences that do not vest or accumulate.

15. Are there any specific issues with, or related to, Section PS 3250 and PS 3255 that have not been identified in the “Background to the project” section (page ii) that PSAB should consider in this project?

The Invitation to Comment was comprehensive, Ontario Colleges do not have any additional issues to note that have not already been identified.

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Yes, the Ontario College Sector is committed to continually being engaged in the standard setting process. This opportunity would allow for the Ontario College Sector to understand the implications of any changes to the standard, transition any changes and be able to be part of standard setting from an early stage in the process.

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255
Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name:	Stuart Barr
Organization:	Office of the Auditor General of Canada
E-mail:	stuart.barr@oag-bvg.gc.ca

General comments:

We support the Board's project to review the public sector accounting standards for employment benefits. This work is important because it will address a widespread concern that public sector financial statements do not faithfully and transparently present the economic situation of Canadian public sector pension plans.

Question 12: On what basis should plan assets be valued?

(As the form does not provide space to insert our response to question 12, it is provided below.)

Our preference is to value plan assets on the basis of a market value approach because it is more transparent and it most faithfully represents the value of the assets set aside to fund the pension obligations. It is also less complex for both the users and preparers of financial statements, and is more amenable to assessing the comparability of financial results across entities (as there are often different deferral periods determined from one entity to the next, and even sometimes from one benefit plan to the next within the same entity). Another advantage of this approach is the consistency with measurement of plan assets in the plan's own financial statements under Part IV of the CPA Canada HB, and with other financial assets managed on a fair value basis under PS 3450.

The market-related value basis is in our view no longer appropriate in an operating environment where the long-term sustainability of public sector pension plans is being challenged by the constantly changing market pressures and users call for more transparent financial information. Accounting standards must aim to most faithfully present the economic value of plan assets at a point in time in the statement of financial position, despite the fact that these assets are meant to be invested for the long-term and short-term market fluctuations may offset each other over time.

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes, we support the Board's proposal to review the deferral provisions and the other related matters addressed in this ITC.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

We find the arguments and example included in paragraphs 55 and 56 of the ITC to be quite persuasive to support the view that these components should not be considered separately. We believe that an accounting treatment that deals with all actuarial gains and losses on the DBO irrespective of the underlying components would produce simpler financial reporting that would be less cumbersome for preparers and easier to understand for the financial statements users. Additional note disclosure could be useful to provide information on the underlying components.

- 2b. Are there any additional components that should be separately identified and considered?

We have no additional components to propose.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

We support the “realized and unrealized gains and losses” method because it provides a faithful representation of the actual performance of the plan assets for a determined period. This method is based on objective past events/transactions giving rise to the changes in plan assets, and is therefore less open to the risk of management bias inherent in the determination of an expected return assumption. It will be more understandable for user of the financial statements as this approach is already used to account for financial instruments measured at fair value under PS 3450.

We however acknowledge that this approach has its limits. For example, there is a risk that to mitigate the volatility on the annual surplus/deficit, management may be manipulating the realized gains and losses by making short-term investment decisions that may not be consistent with the pension plan's long-term investment strategies to crystallize large gains in a specific fiscal period. But such a risk is not limited to pension plan assets and already exists in the context of other existing accounting standards, such as financial instruments.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

We have no other views to propose.

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

We have no additional aspects to propose.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

We have no additional significant considerations to propose.

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

We have no additional recognition alternatives to propose.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

We have no alternative amortization periods and/or bases to propose.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

We have no additional alternatives to propose.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

We have two additional arguments in relation to the deferral and amortization alternative. The first relates to the costs required to maintain financial information systems to track the deferred and amortized balances and reconcile them year-on-year, and the costs for auditors to audit these deferred balances. The second relates to the added complexity of the disclosures inherent with any scenarios requiring deferral and amortization and the risk that material information is overlooked by financial statements users as a result of the volume and complexity of the information disclosed.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

We support the immediate recognition of all gains and losses in the period when they arise to ensure that the net pension liability/asset reported on the statement of financial position is a transparent and faithful representation of the entity's benefit obligation. This way, the sponsor will only recognize an asset when a plan is in a surplus and a liability only when a plan has a deficit. This approach will also be much easier to understand.

We acknowledge the widespread concerns that this approach will create volatility in the annual surplus/deficit given the short-term nature of the changes in the value of the accrued benefit obligation and plan assets. We however believe that a measure should be volatile if it faithfully represents transactions and events that are themselves volatile and the financial statements should be clear and transparent about this information. We also acknowledge this approach may diminish the usefulness of the annual surplus/deficit measure because of the combination of items that have a different nature compared to other controllable operating activities recorded in the statement of operations.

While these concerns are not sufficient to dismiss the immediate recognition approach, we acknowledge that they have merit and we encourage the Board to pursue options to present these changes in a way that is most useful to users, for example by isolating them within the annual surplus/deficit. This could be achieved by adopting the proposal in the 2015 Conceptual Framework Consultation Paper #3 to combine the statement of operations with the statement of remeasurement gains and losses to make a single periodic financial results statement, while continuing to present unrealized remeasurement gains and losses separately from net results, which would be an improvement from the existing

two separate statements and would simplify the presentation of annual results.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Based on the review of financial statements of the senior governments and PSAS entities in our audit portfolio:

- 8 entities have funded pension or other retirement benefit plans.
- Half measure plan assets at market value, with the other half using the market-related value basis.
- Entities using the market-related value basis use an amortization period ranging between four and five years.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

We are aware that the Government of Canada has post-employment benefit plans that do not vest or accumulate. Examples include the War-time Veterans benefit plan and the Peace time programs. Actuarial gains or losses are amortized over the average remaining life expectancy (ARLE) of plan participants for the first one, and the expected average remaining service life (EARSL) of plan participants for the second one.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

Yes, we have three specific issues to bring to the attention of the Board.

Definition of plan assets:

As PS3250 is an old standard, the definition of plan assets goes back several years and we believe it would be important to review this definition as part of this first phase of the project to assess whether it remains appropriate in today's environment. In the current definition, the last sentence states "For purposes of this Section, plan assets do not include amounts held by the government and not yet paid into the trust or other legal entity."

As currently written, the last sentence of the definition allows scenarios that are currently observed in practice where a non-transferable debt issued by the reporting entity to the pension plan meets the definition of plan assets. This is because the amount promised under a non-transferable debt instrument is considered to have been "paid into the trust or other legal entity". This means that a plan sponsor can reduce the net benefit liability recognized in its statement of financial position by issuing non-transferable debt instruments to the plan. Some argue that presenting such a lower net benefit liability is appropriate because the amounts payable under the debt instrument are restricted and protected from the creditors of the reporting entity. However, others argue that while this may be true, the benefit plan is still exposed to the reporting entity's own credit risk in respect of unpaid amounts and showing such amounts as plan assets is misleading as it underestimates the true value of the reporting entity's net benefit liability.

While the liability under the non-transferable debt instrument is reflected as a financial liability elsewhere in the statement of financial position, and while additional information can be provided in note disclosure, the net benefit liability reported on the statement of financial position no longer provides a faithful representation of the reporting entity's employee benefit obligations. This can be confusing and misleading to the financial statements users. Taking this scenario to its extreme, a plan sponsor could issue a debt instrument to a benefit plan for the full value of the defined benefit obligation, which would be considered a plan asset under the existing definition, and which would result in the plan being presented

in the financial statements of the reporting entity as being fully funded when in reality, this is not the case. Such scenarios involving significant amounts are currently observed in practice in the Canadian public sector.

The principle underlying the definition of plan assets requires that assets are moved beyond the reporting entity's control so that they are only available to meet employee benefit obligations. Following this principle, amounts unpaid under a non-transferable debt instrument issued by an employer to a benefit plan is similar to unpaid future contributions. This has been recognized by other standard setters. Under IFRS and IPSAS, the definition of plan assets found in IAS 19 and in IPSAS 25 explicitly excludes non-transferable financial instruments issued by the reporting entity to the benefit plan.

IAS 19.114: Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

We are not aware of specific reasons that would justify a different definition for the Canadian public sector compared to elsewhere at the global level. Users of financial statements deserve a clear, transparent and faithful representation of the economic substance of the reporting entity's net benefit liability owed to the plan, irrespective of the various legal forms that the liability can take, including non-transferable debt instruments. The current definition of plan assets does not permit this outcome and should be reviewed taking the public interest in consideration.

Paragraph .038 of PS 3250:

As part of the review of the definition of plan assets, the need to retain paragraph .038 of the standard should also be considered. Paragraph .038 reads as follows: "In some cases governments issue non-marketable securities to their benefit funds on the condition that those securities are held in the fund to maturity. Market-related values for these assets may not be readily determinable. In such cases, non-marketable securities can be valued at cost."

This paragraph provides guidance on how to measure non-transferable securities issued by the reporting entity. Under a proposal where the definition of plan assets would be revised to exclude such securities, this paragraph would no longer be required.

Determination of "expected future benefits" within the asset ceiling test:

In the current standard, where a plan surplus exists that gives rise to an accrued benefit asset, it must be determined whether a valuation allowance is required to be recognized against that accrued benefit asset. The amount of the valuation allowance required is determined as the adjusted benefit asset (determined under PS 3250.053) less the expected future benefit (determined under PS 3250.056).

The formula to determine the expected future benefit laid out in PS 3250.056 is the sum of:

- (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
- (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.?

In practice, with respect to paragraph PS 3250.056(a), we have identified that there are different interpretations as to the timeline over which the inputs to this calculation are meant to be determined. More specifically, we understand that the different interpretations range from as much as a consideration of amounts into perpetuity, to as little as a consideration of amounts only to the end of the most recent actuarial valuation for funding purposes that is currently in place (these valuations generally only cover 3-year periods at a time). Between these two extremes, we also understand there to be other possible interpretations, such as a consideration of amounts over the EARSL of the current employee group, as one example.

The potential impact of the different interpretations on this matter can possibly lead to materially different financial reporting outcomes from one entity to the next, even where a similar fact pattern exists. Furthermore, for any given entity, the different judgments could mean the difference between the recognition of a full valuation allowance versus no valuation allowance at all.

Given the above, we therefore consider that it may be useful to provide further explicit guidance as to the expected timeframe over which the inputs to this calculation should be determined.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Given our role as auditor, we are not in a position to assist the Board given we are not in a position to provide the benefit plan data necessary for field testing.

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Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255
Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name:

Organization:

E-mail:

General comments:

Our company provides actuarial consulting services to allow organizations to prepare financial reporting using PSAB standards. We are not using PSAB standards for our own reporting. Our responses are made from the perspective of the issues we observe our clients facing when applying the standards. We are unable to provide a response to certain of the questions asked below.

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes, in our observation there is often confusion with organizations on how to apply these provisions of the standard and uncertainty regarding whether or not deferrals are appropriate. We have seen some organizations elect a policy of immediately recognizing gains and losses even though deferral and amortization of these amounts is mandatory under the current standards.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

None, treating all of these components consistently will help ensure there is no incentive to manage the treatment of the various changes to achieve a desired accounting result. Additionally, a consistent treatment will be easier for financial statement users to understand.

- 2b. Are there any additional components that should be separately identified and considered?

None.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

Expected and unexpected return is generally consistent with other accounting standards and allows for the quantification of difference of actual returns compared to expected experience. Reporting this difference can provide financial statement readers an indication of the level of risk inherent in the asset mix and the reasonableness of the assumptions being used by management. In a scenario where assumed asset return is set independent of the discount rate and recognition of the unexpected return can be deferred to future periods, there is incentive to set aggressive return on asset assumptions.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

None.

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

None.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

While we can see merit in analyzing the nature of the components of change between those that are unlikely to reverse in future years (suggesting that deferral is not warranted) from those that have a higher likelihood of reversing in future years (suggesting that deferral is warranted), we believe that in practice this will be difficult to apply due to the amount of judgment that will be required for such an assessment. We also point out even assumptions even assumptions with a low likelihood change can reverse. There is a growing point of view, for example, that economic and lifestyle factors will limit or reverse improvements in life expectancies. Additionally, splitting the components of change this way may not improve the understandability of financial reporting for employee benefits for most users.

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

None.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

Yes. The current requirement to track and amortize gains and losses by the year they were incurred is cumbersome and adds time and expense to the preparation of annual financial reporting information. This is compounded in years when special event occur that trigger settlements, curtailments or the recognition of past service costs that immediate or faster recognition of deferred amounts. Additionally, this approach can lead to results that are not easily understood by financial statement users. For example, it is possible to report a net amortization gain as a reduction of current year's expense when there are overall net unamortized losses at the beginning of the year. This counterintuitive result can arise due to the

timing of the amortization of the historical individual years in the calculation of the amortization amount for the current year.

As an alternative we suggest implementing a "0% Corridor" approach. Under this approach all unamortized amounts are pooled at the beginning of the fiscal year and amortized over a single period, such as expected average remaining service life (EARSL). This approach is computationally simple, does not require maintaining lengthy historical amortization tables, eases the recognition of unamortized amounts when required for special events and does not produce counterintuitive results.

If the deferral provisions are kept in the standard they should be made optional rather than mandatory as they are currently, to allow organizations to use this approach if desired.

With respect to the amortization period, in our view EARSL remains appropriate for plans with a large active group as it is consistent with the objective of recognizing the cost of the benefits over employee service. Guidance is needed for plans that have few or no active members. The current standard is written to require almost immediate recognition of gains and losses in these cases, even when the obligations in the plans have long time horizons. Life expectancy of inactive plan members was a common approach in private sector standards when they still allowed deferrals, however this resulted in unreasonably long amortization periods in practice. A fixed period in these circumstances, such as 5 or 10 years, may be a reasonable compromise and will allow organizations time to respond to the changes through their management of the plans.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

None that warrant consideration.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

No, arguments provided are consistent with the analysis performed for other accounting standards that have addressed these issues in recent years.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

Having different accounting treatments for different components of the changes in benefit obligations and plan assets will increase the complexity of applying the standards, will reduce the understandability of financial reports and will provide opportunities to manage the accounting results. Treating all components of change consistently will minimize these concerns.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Not applicable, our organization does not prepare its financial reports under PSAB Standards.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Not applicable, our organization does not prepare its financial reports under PSAB Standards.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

If deferrals are kept in the standards then the provisions regarding the limit on the accrued benefit asset will need to be reviewed for appropriateness.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Not applicable, our organization does not prepare its financial reports under PSAB Standards.

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Formulaire de réponse
Pour être pris en considération,
les commentaires doivent être reçus au plus tard
le 3 mars 2017.

Avantages sociaux : dispositions relatives au report énoncées dans les chapitres SP 3250 et SP 3255

Appel à commentaires

Le CCSP invite les intéressés à formuler des commentaires sur tous les aspects de l'appel à commentaires.

Ce formulaire ne vise pas à restreindre votre réponse. Chaque boîte de texte acceptera l'intégralité de vos commentaires.

Vous pouvez sauvegarder le formulaire et l'envoyer, pour examen, à d'autres personnes de votre organisation avant de le soumettre.

Nom :

M. Yvon Bouchard, CPA, CA

Organisation :

Ministère des Affaires municipales et de l'Occupation du territoire (MAMOT)

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Commentaires généraux :

La présente réponse à l'appel à commentaires que le MAMOT soumet au CCSP a fait l'objet d'une consultation auprès du Groupe de travail sur la présentation de l'information financière chapeauté par le MAMOT et regroupant des représentants de diverses associations de gestionnaires municipaux. Elle est axée sur la présentation de l'information financière relative aux avantages sociaux futurs des organismes municipaux qui sont promoteurs de régimes de retraite à prestations déterminées et d'autres avantages sociaux futurs. Le MAMOT ne répond aucunement eu égard aux avantages sociaux futurs offerts par le gouvernement du Québec et ses ministères/organismes, cette responsabilité incombant au Contrôleur des finances du Québec.

Il aurait été préférable que le nouveau cadre conceptuel soit déjà adopté ou en bonne voie de l'être pour guider les réflexions sur le présent appel à commentaires. Toutefois, nous convenons qu'il y a quand même lieu que soit entrepris sans attendre le projet de redéfinition des normes sur les avantages sociaux futurs. En effet, il y aurait lieu de remédier à la situation actuelle où l'on peut présenter un régime de retraite à l'actif sur le plan comptable alors qu'il peut être fortement déficitaire sur le plan légal du financement, ce qui est difficilement compréhensible par les citoyens.

Par ailleurs, les modalités de présentation de l'information sur les avantages sociaux futurs pouvant être proposées en réponse au présent appel à commentaires pourraient être prises en considération et influencer dans l'élaboration du nouveau cadre conceptuel.

Nécessité d'examiner les dispositions relatives au report

1. Êtes-vous d'accord qu'il est nécessaire que le CCSP examine si les dispositions relatives au report énoncées dans les normes sont appropriées?

Oui, notamment pour la raison évoquée précédemment et aussi pour tendre à simplifier la comptabilisation et la présentation de l'information financière relative aux régimes de retraite et autres avantages sociaux futurs.

Composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

- 2a. Parmi les composantes des variations de la valeur de l'obligation au titre des prestations constituées présentées au tableau 2 et aux paragraphes .015 à .056, certaines devraient-elles être prises en considération séparément aux fins de l'établissement de la méthode de constatation des variations de la valeur de l'obligation au titre des prestations constituées dans l'état des résultats et dans l'état de la situation financière, et si oui, lesquelles?

Afin d'éviter l'utilisation des hypothèses dans un but d'influer sur les résultats, la méthode de constatation devrait être la même peu importe la nature des composantes des variations de la valeur de l'obligation. Par ailleurs, la décomposition des variations de la valeur de l'obligation par composantes telle que proposée dans l'appel à commentaires peut s'avérer difficile à faire, bien qu'elle puisse être appropriée et utile pour comprendre l'évolution et les effets des hypothèses actuarielles et de l'expérience des régimes.

- 2b. Y a-t-il d'autres composantes qui devraient être prises en considération séparément?

Non

3. Laquelle des façons de ventiler la composante «rendement des placements» des variations de la valeur des actifs du régime présentées aux paragraphes .057 à .065 est la plus appropriée aux fins de l'établissement de la méthode de constatation des variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

Contrairement à l'affirmation du paragraphe 65 de l'appel à commentaires, à savoir que la ventilation du rendement entre la portion prévue et imprévue est arbitraire et subjective, nous considérons que cette ventilation est peu arbitraire car elle est basée sur l'hypothèse du taux de rendement reposant notamment sur la politique de placement, laquelle n'est pas appelée à changer fréquemment. Le rendement espéré est plus prévisible que les décisions futures d'achat/vente d'actifs et de réalisation des gains et pertes, et donc plus facile à budgéter.

L'alternative de ventiler la composante du rendement des placements selon la méthode des "gains et pertes réalisés et non réalisés" est beaucoup plus arbitraire et peut être sujette à manipulation par des décisions touchant la gestion des actifs aux fins d'influer sur les résultats de l'exercice en cours.

L'hypothèse du taux de rendement est relativement homogène entre les actuaires et fait l'objet d'un certain contrôle par des organismes de réglementation du secteur comme Retraite Québec.

4. Y a-t-il d'autres façons de ventiler la composante «rendement des placements» des variations de la valeur des actifs du régime qui devraient être prises en considération aux fins de l'établissement de la méthode de constatation des variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

Non

5. Y a-t-il des aspects des composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime qui devraient être pris en considération aux fins de l'établissement de la méthode de constatation de ces variations dans l'état des résultats et dans l'état de la situation financière et qui ne sont pas mentionnés aux paragraphes .018 à .065?

Non

Autres méthodes et questions non relevées

6. Y a-t-il des questions importantes à considérer pour déterminer la méthode de constatation de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .070 à .091?

La notion d'obligation implicite n'est pas abordée dans l'appel à commentaires. Il y a lieu de se questionner si les variations des obligations implicites s'expliquent toutes par les composantes définies dans l'appel à commentaires ou si d'autres éléments ne devraient pas également être pris en compte. Lorsque vient le temps de ventiler les variations de la valeur de l'obligation en fonction de composantes, faut-il faire une distinction entre une obligation conventionnelle établie selon les clauses du régime de retraite et une obligation implicite établie conformément aux critères de constatation d'un passif comptable (SP 3200)?

7. Y a-t-il des méthodes possibles de constatation des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .092 à .109 et .115 à .120?

Non

8. Y a-t-il des périodes d'amortissement ou bases d'amortissement possibles aux fins de l'application de la méthode de la constatation reportée qui ne sont pas mentionnées aux paragraphes .110 à .114?

On pourrait ajouter une méthode de recyclage basée sur les besoins de décaissements aux fins du paiement des cotisations d'équilibre. Celles-ci sont établies par les actuaires aux fins du financement des régimes conformément à des dispositions légales comme, par exemple, la Loi sur les régimes complémentaires de retraite (LRCR) au Québec. Selon la LRCR, une nouvelle cédule prospective de cotisations d'équilibre sur 15 ans est établie au moins à tous les 3 ans. Cette méthode de recyclage basée sur les besoins de décaissements aurait l'avantage pour le secteur municipal au Québec d'arrimer le recyclage des gains et pertes actuariels avec la taxation, laquelle est normalement établie sur base de caisse (par exemple, en taxant le service de dette et les acquisitions d'immobilisations payées comptant plutôt que l'amortissement des immobilisations).

9. Y a-t-il des méthodes possibles d'évaluation des actifs du régime qui ne sont pas mentionnées aux paragraphes .121 à .128?

Non

10. Y a-t-il des arguments importants relatifs à l'une ou l'autre des méthodes possibles de constatation dans l'état des résultats (paragraphes .092 à .109) ou dans l'état de la situation financière (paragraphes .115 à .120) ainsi que des méthodes possibles d'évaluation des actifs du régime (paragraphes .121 à .128) dont les paragraphes mentionnés ne font pas état?

La méthode consistant en aucune constatation dans l'excédent ou le déficit de l'exercice ne devrait pas être retenue. Certaines variations ne seront jamais renversées, comme celle découlant de l'amélioration de la mortalité. Pour dégager les liquidités nécessaires au versement des cotisations d'équilibre en lien avec de telles variations qui ne seraient jamais constatées, une municipalité serait obligée de taxer en surplus, en prévoyant dans ses budgets des revenus excédant les charges, ce qui serait difficilement justifiable ou compréhensible pour les contribuables.

Par ailleurs, la méthode de constatation immédiate ne devrait également pas être retenue car elle engendrerait de grandes fluctuations des résultats. Dans le secteur public, le budget revêt une importance capitale. Les municipalités et les autres organismes municipaux ont l'obligation d'avoir des budgets équilibrés (ou à tout le moins excédentaires, ce qui est cependant difficilement justifiable auprès des contribuables).

Nous privilégions donc une méthode avec recyclage comportant l'enregistrement temporaire des variations non encore

constatées aux résultats dans un état des gains et pertes de réévaluation (ou résultats étendus) avant de les "recycler" aux résultats.

Traitement comptable de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

11. Comment chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime devrait-elle être constatée dans l'état des résultats et dans l'état de la situation financière?

À l'état de la situation financière, nous privilégions la présentation de la situation actuarielle réelle, en incorporant immédiatement les gains et pertes actuariels dans le passif ou l'actif au titre des prestations constituées. En cas d'actif, une provision pour moins-value (PMV) pourrait devoir être déduite, comme à l'heure actuelle, le cas échéant. [Voir cependant le commentaire fourni en réponse à la question 15 concernant la constatation de la variation de la PMV aux résultats.]

À l'état des résultats, nous privilégions la constatation reportée avec une méthode de recyclage qui s'arrimerait avec la façon d'établir les cédules de cotisations d'équilibre aux fins du financement. Au lieu d'avoir comme actuellement, pour chaque gain et perte, une cédule spécifique sur un horizon donné (comme la DMERCA), ce qui résulte en une superposition de plusieurs cédules dans le temps, ne pourrait-on pas, à la fin de chaque exercice, pour le solde des gains et pertes non encore constatés aux résultats établir une nouvelle cédule de recyclage sur 15 ans à amortir à compter de l'exercice suivant. Il n'y aurait donc en permanence qu'une seule cédule qui serait mise à jour à chaque année. Aucune distinction ne devrait être faite entre des gains/pertes liés aux obligations et ceux liés aux actifs. Cette méthode s'apparenterait à celle évoquée en réponse à la question 8. Dans le secteur municipal au Québec, une telle méthode permettrait l'arrimage avec les règles fiscales et budgétaires fonctionnant sur base de caisse, tout en étant plus simple à gérer que la superposition actuelle de cédules.

12. Quelle devrait être la base d'évaluation des actifs du régime?

Afin de pouvoir présenter la situation actuarielle réelle à l'état de la situation financière, comme mentionné en réponse à la question 11, nous privilégions l'évaluation des actifs à leur juste valeur. Avec la méthode de recyclage aux résultats proposée en réponse à la question 11, il devient superflu de recourir à un lissage intermédiaire pour les actifs au moyen d'une valeur de marché redressée.

Afin de permettre une meilleure comparaison de la situation actuarielle des régimes de retraite dans les états financiers des promoteurs, il y aurait lieu de ne plus permettre de choix. Le CCSP devrait statuer sur une seule base d'évaluation, soit la juste valeur comme nous le proposons, soit une valeur de marché redressée (lissage) et, advenant que cette dernière base soit retenue, de statuer sur une durée fixe de lissage pour tout le monde (par exemple, 5 ans, ce qui se rapprocherait du cycle économique moyen).

Méthodes comptables actuelles

13. Évaluez-vous les actifs du régime à la valeur de marché ou à une valeur liée au marché? Si vous avez recours à une valeur liée au marché, expliquez comment elle est établie.

Dans le secteur municipal au Québec, selon un échantillon de 35 organismes municipaux (soit près de la moitié de ceux qui sont promoteurs de régimes de retraite), 8 ne font pas de lissage, mais 27 en font (17 sur 5 ans, 1 sur 4 ans, 9 sur 3 ans).

14. Quelle méthode comptable appliquez-vous pour la constatation des gains et pertes actuariels (constatation reportée ou immédiate) liés aux avantages postérieurs à l'emploi et aux congés rémunérés qui ne s'acquièrent pas ou ne s'accumulent pas? Expliquez pourquoi cette méthode a été choisie.

Les deux plus grandes villes du Québec constatent les gains et pertes actuariels liés à ces avantages sur une période de 5 ans (méthode de report). Nous ne disposons pas d'information à cet égard pour les autres organismes municipaux promoteurs de tels avantages.

Questions non relevées quant au projet

15. Y a-t-il des questions particulières liées aux chapitres SP 3250 et SP 3255 qui ne sont pas relevées dans la section «Aperçu général du projet» (page ii) et que le CCSP devrait examiner dans le cadre du projet?

La question de la provision pour moins-value (PMV) n'a pas été couverte dans le cadre du présent appel à commentaires. Actuellement, toute variation de la PMV est entièrement constatée en charge immédiatement alors qu'un gain ou une perte actuariel ayant engendré la variation de la PMV est recyclée sur la DMERCA, ce qui crée un décalage de constatation. À noter que les IFRS ont prévu une règle comptable qui assure un meilleur synchronisme.

La variation de la PMV n'a pas été abordée dans l'actuel projet portant sur les reports, probablement dû au fait qu'elle ne fait pas l'objet de report actuellement. Toutefois, nous sommes d'avis qu'il serait important de se questionner, dans le cadre du présent projet, à savoir si la constatation immédiate de la variation de la PMV demeure toujours valable et si cette variation ne mériterait pas plutôt de faire aussi l'objet d'un recyclage comme pour les gains et pertes actuariels. C'est un questionnement directement associé aux reports à notre avis.

Participation à d'éventuels projets pilotes

16. Voudriez-vous participer à d'éventuels projets pilotes, qui pourraient comprendre l'utilisation de données réelles sur des régimes d'avantages pour déterminer les conséquences financières de diverses méthodes?

s/o

Cliquez ici pour soumettre

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255
Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name:

Organization:

E-mail:

General comments:

Public Sector entities do operate in a different environment. The government Not-For Profit's objective is to achieve a balanced budget. Reducing volatility in the components of the Statement of Operations should be a key consideration.

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

Assumption changes and experience gains and losses should be treated consistently.

- 2b. Are there any additional components that should be separately identified and considered?

No

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

Differences between expected and unexpected investment return should be treated as gains/losses.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

No

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

No

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

Public Sector entities do operate in a different environment. Reducing volatility in the components of the Statement of Operations should be a key consideration in order for SickKids to achieve a balanced budget.

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

No

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

No

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

No

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

No

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

Deferred recognition (recycling)

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Market-related with gains/losses spread uniformly over the year in which the gain/loss occurs and the following four years.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Deferred - recognition over EARS L or expected lifetime - to be consistent with pension.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

No

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Yes

Click here to submit

Finance

Comptroller's Division

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March 3, 2017

Mr. Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Mr. Puskaric:

**Re: Invitation to Comment – Employee Benefits:
Deferral Provisions in Sections PS 3250 and PS 3255**

The Province of Manitoba supports PSAB's initiative to review PS 3250 *Retirement Benefits* and PS 3255 *Post-employment Benefits, Compensated Absences and Termination Benefits*. These two standards were issued decades ago. Since then other standard setters have developed new accounting concepts and standards related to employee benefits, and governments have established new types of pension plans.

The objective of the Invitation to Comment (ITC) is to obtain stakeholder views as to whether the deferral positions in the current standards are still appropriate and identify possible alternatives. Future stages in the Employee Benefits project will include discussions on discount rates, shared risk plans, multi-employer defined benefit plans, and vested sick leave benefits.

Within the context of balanced budget legislation, immediate recognition of gains and losses, which tend to be short term in nature, through the statement of operations will challenge governments to explain volatile results to the general public. Gains and losses in pension plans can conceivably be viewed as revenues and expenses, but any immediate recognition of gains does not represent assets that can be used to provide services.

The Province views the no recognition/no recycling option to have some merit. Gains and losses on plan assets and accrued benefit obligations can be volatile, but these are long term plans operating in a stable government environment. Under this option, the volatility of plan assets and obligations will not affect the government's annual statement of operations.

As requested, the Province has responded to your specific questions in the CP.

We appreciate the opportunity to comment on this ITC. If you have any questions or concerns related to this comments please contact the undersigned.

Yours truly,

"original signed by Aurel Tess"

Aurel Tess, CPA, CGA
Provincial Comptroller
On Behalf of the Province of Manitoba

Need for review of deferral provisions

1. *Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?*

Yes. PSAB needs to consider whether the deferral provisions are appropriate. Section PS 3250 Retirement Benefits has not changed since 2001. International and national accounting standard setters, in both the public and private sectors, have been moving away from the deferral approach.

Components of changes in the accrued benefit obligation and plan assets

2. *(a) Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?*

Changes in the discount rate should be considered separately in determining the accounting for changes in the accrued benefit obligation. Small changes in the discount rate assumption can dramatically affect the accrued benefit obligation.

Demographic and other economic assumptions are generally stable and normally do not significantly affect the accrued benefit obligation from year to year. For most experience adjustments it is normally not clear whether the differences arose because of changes in demographic or economic assumptions.

Significant experience adjustments going in the same way, occurring year after year, would be an indication of a permanent trend. This would suggest that a change in assumptions may be required.

(b) Are there any additional components that should be separately identified and considered?

No. None come to mind.

3. *Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?*

The expected and unexpected return on plan assets is more appropriate method for accounting for the changes in the statement of operations and the statement of financial position. The deferral of unexpected gains and losses reduces the volatility of the return on investment, and more appropriately reflects the long term nature of pension plans. Actual investment returns above or below the expected return on plan assets are normally of a short term nature.

Continuous actual investment returns, occurring year over year, above or below the expected return on plan assets would suggest that a change in the expected rate of return is likely required.

4. *Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?*

No. None come to mind.

5. *Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?*

No. None come to mind.

Alternatives and considerations not identified

6. *Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?*

No. The list of considerations in recognition of each component of the changes in the accrued benefit obligation in paragraph .070 is complete.

7. *Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?*

No. None come to mind.

8. *Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?*

No. None come to mind.

9. *Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?*

No. None come to mind.

10. *Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?*

No. None come to mind.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. *How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?*

The Province views experience adjustments in the accrued benefit obligation to be different from changes in actuarial assumptions. Experience adjustments reflect the difference between actual experience and the previously estimated balances. Recording experience adjustments directly to the statement of operations has some merit since the adjustments to the accrued benefit obligation are made to bring our estimates to actual. Experience adjustments are normally smaller.

Changes in assumptions, especially the discount rate, are different. Changes in the discount rate can dramatically affect the accrued benefit obligation. An employee in a defined benefit plan could be an active member for 40 years, receive benefits for the next 20 years, and then the surviving spouse would continue to receive benefits.

Given the long term nature of pension plans, it would be appropriate to amortize dramatic changes in the accrued benefit obligation over several accounting periods, rather than recognizing the full effects in the statement of operations in the period that the assumptions are adjusted. Accruing spikes and valleys in the pension expense and liability is not consistent with the nature of defined benefit plans

Changes in the market value of plan assets can be even more dramatic. Significant deviations, whether they are shortfalls or surpluses from the expected rate of return, can be reversed in the short term. The short term volatility in the market value of plan assets would require governments to use an adjusted market value for plan assets. Unexpected returns and losses should be amortized over a short period.

12. *On what basis should plan assets be valued?*

Plan assets should be valued at market or market related values adjusted to market value over a period not to exceed five years. Both methods would be acceptable.

Market value only is more conceptually sound with the definition of an asset. It is easy to understand and would enhance comparability between public sector entities. Market value would be consistent with the measurement of plan assets in the benefit plan's own financial statements.

Plan assets adjusted to market values would minimize short term volatility and would be a close approximate of the current market value. The deferral and amortization over five years would be consistent with the normal period of market cycles.

Current accounting practice

13. *Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.*

The Province of Manitoba measures its plan assets at a market-related value. The value of plan assets is determined using a moving average fair value method. Under this method fair value is the underlying basis with any excess or shortfall of investment returns from the expected long term returns are amortized over a five year period.

14. *What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.*

Actuarial gains and losses in the severance liability are amortized over EARSL. The periods range from 4 to 15 years depending on the public sector entity. Actuarial gains and losses for the long term disability income plan are recognized into income as they occur. Actuarial gains and losses for the sick leave liability are being amortized over EARSL which is 14 years.

Project issues not identified

15. *Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?*

No. None come to mind.

Participation in future field tests

16. *Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?*

Yes, the Province of Manitoba would be interested in participating in future field tests.



Michael Puskaric
Director
Public Sector Accounting
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Puskaric:

SUBJECT: Employee Benefits: Deferral Provisions in PS 3250 and PS 3255

Thank you for the opportunity to comment on the Invitation to Comment (ITC) *Employee Benefits: Deferral Provisions in PS 3250 and PS 3255*. Our responses to the specific questions posed are provided in Appendix A below. For your information, in Appendix B we have included a description of the different reporting entities involved in the major federal public sector pension plans with a summary of the different accounting standards applied.

If you have any further questions related to these comments, please do not hesitate to contact either Ms. Leona Melamed at Leona.Melamed@tbs-sct.gc.ca (613-355-2731) or myself at Diane.Peressini@tbs-sct.gc.ca (613-369-3107).

Yours sincerely,

Diane Peressini
Executive Director,
Government Accounting Policy and
Reporting

c.c.: Bill Matthews, Comptroller General of Canada
Roger Ermuth, Assistant Comptroller General, Financial Management

APPENDIX A

Responses to Questions Posed

Need for review of deferral provisions

1. *Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate??*

We agree. Given that the major standard setters, i.e. the International Accounting Standards Board (IASB), the Financial Accounting Standards Board (FASB), the International Public Sector Accounting Standards Board (IPSASB) and the Governmental Accounting Standards Board, have moved away from deferrals and require that the full accrued benefit obligation net of plan assets is recognized in the Statement of Financial Position, the objectives of reporting employee benefit obligations that permit deferrals should be reviewed.

Components of changes in the accrued benefit obligation and plan assets

2. (a) *Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?*

(b) *Are there any additional components that should be separately identified and considered?*

(a) As noted in Chart 2, part of the change in the value of the accrued benefit obligation is a result of changes in actuarial assumptions and experience adjustments. Our discussion here relates only to those two components of the change in the accrued benefit obligation.

In our opinion, these changes should not be further separated into components reflecting experience versus assumptions, nor should the changes due to the actuarial assumptions be separated by category.

There are many instances where it is not clear whether the change in the obligation is due to experience or a change in assumptions. An example of this is outlined in paragraph .055 of the ITC with respect to salary increases. Another example would be benefit claim utilization experience which also reflects medical costs inflation factors. Consequently, due to the practical considerations and potential for manipulation of results, we do not support accounting differently for experience adjustments and changes due to actuarial assumptions.

Many of the components of actuarial assumptions are interdependent, e.g. the discount rate and inflation. Although some assumptions, such as mortality, do not change significantly year over year, the principles supporting a different accounting treatment have not been identified in the ITC. The purpose of the various actuarial assumptions is the same - estimation of the actuarial obligation – and this does not differ based on the type of assumption. The discussion in the Basis for Conclusions (BCs) for IAS 19 relates the presentation of actuarial gains and losses in other comprehensive income to the predictive value of the financial information, particularly with respect to the amount and timing of cash flows. In our opinion, and consistent with IAS 19, differentiating the relative predictive value of the assumptions in order to account for them in a different manner would be arbitrary.

(b) None noted.

3. *Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?*

In our view, the “expected versus unexpected return” breakdown better conveys the implications of the changes in plan assets for the reporting entity, i.e. from the perspective of the plan sponsor. The “realized versus unrealized” breakdown of gains and losses on the plan assets is consistent with the financial instruments guidance, and is relevant for the reporting of the defined benefit plan itself. However, realized pension plan assets are reinvested, and other types of assets may be held for many years where returns will be realized in the long-term. Using a breakdown of realized versus unrealized does not reflect the long-term model for management of pension plan assets. Under the current PS 3250 requirements, the expected return on plan assets is used to discount the obligation of funded plans, as it reflects the plan’s ability to finance the obligation with the assets held. For the plan sponsor, whether or not plan assets are providing returns as expected is more relevant to the plan’s financial performance.

4. *Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?*

IAS 19 *Employee Benefits* (and IPSAS 39 *Employee Benefits*) uses the net interest approach. Given that this approach is now used by Canadian publicly accountable entities, and will be used by jurisdictions applying IPSAS, we believe that this view should also be considered.

The net interest approach differs from the expected versus unexpected returns approach in that the discount rate is applied to the accrued benefit obligation net of the fair value of plan assets in order to reflect the changes due to the passage of time as a component of the current defined benefit cost. Any remaining differences in the returns on plan assets are remeasurements included in the actuarial gain or loss. This approach is intended to reflect the economics of the entity's decision on how to finance the plan by reporting net interest income when the plan is in surplus, and net interest expense when the plan is in deficit. In the Basis for Conclusions of IAS 19 (paragraphs 74-85), the IASB states that they took this approach due to practical difficulties in objectively identifying the change in the fair value of plan assets that results from the passage of time for non-interest bearing assets. The net interest approach was agreed on as a simple and pragmatic solution.

5. *Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?*

None noted.

Alternatives and considerations not identified

6. *Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?*

In our opinion, conceptual considerations with respect to the qualitative characteristics of information, the financial reporting model and measurement bases need to be addressed in more detail:

Qualitative characteristics:

Analysis of the proposals in light of the qualitative characteristics of information outlined in the conceptual framework would be useful to constituents to frame their considerations of whether deferrals should be continued or eliminated, and for considering the options for recognition of the changes in the accrued benefit obligation.

For example, recognizing the full accrued benefit obligation and eliminating deferrals presents amounts that are relevant, as they have accountability value, are faithfully representative of management's best estimates and more understandable to users. However, relevance may also be compromised given the lack of predictive value due to the resulting volatility in the Statement of Financial Position, particularly affecting the net debt indicator.

In considering the presentation of the changes in the value of the accrued benefit obligation, relevance (notably accountability and predictive value), faithful representation, and understandability in support of the objectives of financial reporting are the key characteristics to be analysed. As well, comparability to the requirements of other major standard setters is another consideration.

Financial reporting model:

The financial statement reporting model under development in the conceptual framework project needs to support the options presented. Principles to distinguish amounts that are recognized in annual surplus/deficit versus another location in the financial statements, and when/whether recycling is appropriate, will be required. Under IAS 19, actuarial gains and losses are recognized in other comprehensive income and then flow directly into accumulated surplus/deficit (without being recognized in annual surplus/deficit). Alternatively, under IPSAS 39, all changes in the accrued benefit obligation are recognized directly in net assets/equity as there is no concept of other comprehensive income in the IPSAS reporting model. We have provided further comments on this aspect in our response to Question 11.

Measurement bases:

The possible measurement bases in the current conceptual framework include historical cost, net realizable value and fair value. The objective of measuring an accrued benefit obligation does not fit any of these, and we encourage PSAB to develop relevant measurement bases in its conceptual framework project to reflect the objective of measuring long-term liabilities. For example, the IPSASB conceptual framework includes the “cost of fulfillment” measurement basis, which is an entity-specific current value defined as “the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner”.

7. *Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120??*

None noted.

8. *Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?*

A “one size fits all” approach does not necessarily work for proposed amortization periods, as certain plans may be closed to new members or reflect a variety of benefits with different settlement dates. Consequently, if this option is selected, we believe that more flexibility should be given to entities to determine the most appropriate amortization period, which may be different to the expected average remaining service life when circumstances are justified.

9. *Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?*

The ITC discusses the use of market values and market-related values. Another alternative could be capped market-related values (used by the Government of Canada currently, see response to Question 13), such that their difference to market values does not fall outside a reasonable margin compared to market values. This would ensure that significant economic shifts, such as the 2008 recession, are captured in a timely manner.

10. *Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?*

The ITC has not clearly conveyed the arguments presented in the Basis for Conclusions (BCs) of IAS 19 regarding the “no recycling” option for remeasurements. Understanding the decisions of the IASB would assist stakeholders, as the comparable pension plans of private sector Canadian entities apply IFRS.

Although paragraph .101 of the ITC states that “some of the changes in the accrued benefit obligation and plan assets are of a tentative nature”, there is no discussion on how this affects the objectives of financial reporting for employee future benefits. Paragraph 90 of the IAS 19 BCs states that the “Board concluded that the most informative way to disaggregate the components of defined benefit cost with different predictive values is to recognize the remeasurements component in other comprehensive income”. This is also the rationale for not amortizing the changes through profit and loss over future periods. As the qualitative characteristic of relevance include the predictive value of financial information, this is an important factor to consider for the presentation options.

The discount rate is the most significant actuarial assumption for which predictive value is limited and causes the most volatility. However, as noted in our response to question 2(a), separating the components of the actuarial gains and losses based on relative predictive value would be arbitrary and would significantly increase the complexity of the presentation, thereby reducing

understandability. In our view, consideration of the presentation options for changes in the accrued benefit obligation should be undertaken in conjunction with determining the discount rate.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

We cannot provide a full response to this question in light of the fact that the current reporting model does not support some presentation options and the Conceptual Framework task force is developing a new reporting model. As well, the measurement bases currently defined in PSASs do not support the measurement objective for the obligation, as noted in our response to Question 6. The use of market-related values for plan assets is also not supported under current PSASs.

With respect to measurement of the defined benefit obligation and plan assets, our assessment of the qualitative characteristics indicates that smoothed values lack relevance with respect to the entity's accountability for the net obligation/asset, are less faithfully representative of management's best estimate of the obligation and are less understandable by the users of financial statements. Therefore, on a conceptual basis, we do not support the continued use of deferrals.

Although the presentation options for the changes in the value of the defined benefit obligation and plan assets are very much dependent on the reporting model, we do not support immediate recognition of the changes in the annual surplus/deficit. We believe that it is not appropriate to recognize fluctuations in such long-term liabilities in the annual surplus/deficit due to assumptions that are outside the control of the entity, are not a measure of current performance, and lack predictive value as they are expected to continuously change over the period to settlement. The resulting volatility in the annual surplus/deficit would reduce the relevance, faithful representation and understandability of the financial statements. As well, given that private sector entities apply IFRS, and an increasing number of governments globally apply IPSAS, the comparability of annual performance will be compromised. Consequently, the new reporting model should support presentation options for these changes in a financial statement location other than annual surplus/deficit.

Whether it is more appropriate to recycle actuarial gains and losses through annual surplus/deficit or take the approach used in IAS 19/IPSAS 39 would be reflected in principles supporting the reporting model. The IASB has

determined that it is not necessary to recycle; although their current reporting model presents annual comprehensive income, there are no specific principles for presenting amounts in annual surplus/deficit versus other comprehensive income. The IPSASB reporting model allows flexibility in reporting changes in assets and liabilities in net assets/equity rather than annual surplus/deficit, as determined at a standards level.

We believe that PSAB needs to undertake this project in conjunction with the conceptual framework project in order to develop measurement bases and a reporting model that provides principles which support accountability, as well as taking into account the volatility and lack of predictive value associated with annual changes in the accrued benefit obligation/asset.

12. On what basis should plan assets be valued?

We believe that fair value is more faithfully representative, relevant and consistent with the financial statements of the benefit plans. As well, this would align with the valuation basis used by the investment entities holding the plan assets and the individual pension plans' financial statements

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Investments held by the Public Sector Pension Investment Board (PSPIB) are valued at market-related value, a five year smoothed value. Under this method, the expected return on investments is recorded immediately while the difference between the expected and the actual return on investments is recorded over a five-year period through actuarial gains and losses. The market-related value of investments is adjusted, if necessary, to ensure that it does not fall outside a limit of plus or minus 10 percent of the market value of investments at year end; any difference is recorded immediately through actuarial gains and losses.

Contributions receivable from employees for past service buyback elections are discounted to approximate their fair value.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

The Government of Canada recognizes actuarial gains and losses arising from post-employment benefits over the expected average remaining service life

(EARSL) of the employees, which varies across plans, or the average remaining life expectancy (ARLE) of the benefit recipients under wartime veteran plans. Recognition of actuarial gains and losses commences in the year following the effective date of the related actuarial valuations.

The policy of deferred recognition was chosen due to the tentative nature of the estimates and actuarial assumptions, and because further adjustments will likely be required in the future. This allows the Government to budget appropriately for the impact of volatility on operations.

Project issues not identified

- 15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project??*

Given that the conceptual framework is under development, and many of our comments on the deferral provisions relate to the measurement bases and reporting model, we believe that the phased approach to this project will not result in better information in the financial statements, and the two projects – employee benefits and the conceptual framework - should be developed concurrently. As well, given that the discount rate is the most significant assumption that creates volatility, and the smoothing permitted through the deferral provisions relates to this volatility, issues with selecting the discount rate cannot be detached from the issues related to the deferral provisions.

- 16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?*

We have no objections to being contacted for participation, however, we would need to consult internally given privacy concerns and cost constraints, and make an assessment once the scope of the field tests is defined.

APPENDIX B

INFORMATION ON FEDERAL PUBLIC SECTOR PENSION PLANS

Background

The four main federal public sector pension plans are the Public Service pension plan, RCMP pension plan, Canadian Armed Forces Regular pension plan and the Regular Forces Reserve pension plan. These pension plans comprise approximately 95% of the Government of Canada's pension liabilities, with net assets valued at \$116.8 billion as at March 31, 2016 (based on IFRS fair value accounting in the Public Sector Pension Investment Board (PSPIB) and individual pension plan financial statements). It should be noted that the pension plans' obligations accrued before 2000 are unfunded.

Consolidated financial statements in the Public Accounts of Canada

Pension plans are consolidated in the Public Accounts of Canada and are presented in accordance with PSAS. The assets held by PSPIB are valued at market related value, using a five-year smoothed value. Actuarial gains and losses are recognized over the expected average remaining service life (EARSL) which varies across plans.

Individual pension plan financial statements

Legislation requires that the four major pension plans produce individual financial statements that are audited by the Auditor General of Canada and included in individual Annual Reports tabled in Parliament.

These four major pension plans are separate reporting entities and follow Canadian accounting standards for pension plans in Part IV of the CPA Canada Handbook (section 4600). As well, for accounting policies that are not covered by section 4600, the pension plans comply with IFRS.

The assets are valued at a fair-market value in accordance with IFRS; Section 4600 has precise disclosure requirements for investment income. The pension obligation is measured on the same basis as in the Public Accounts of Canada.

Investment entity accounting of pension assets managed by PSPIB

The assets of the four major pension plans are held and managed by PSPIB, an independent Crown Corporation. PSPIB is an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries. PSPIB measures its investments in subsidiaries, associates, joint ventures and financial assets and financial liabilities at fair value through profit and loss (FVTPL) in accordance with IFRS 9 *Financial Instruments* and IAS 28 *Investments in Associates and Joint Ventures*. These financial statements do not disclose the pension plan obligations since the

reporting entity only comprises the investments under its responsibility. Under IFRS, there are no detailed disclosure requirements regarding the types of investment income e.g. changes in fair values, realized and unrealized gains and losses.

Office of the Auditor General – Newfoundland and Labrador
Response to PSAB Invitation to Comment
Employment Benefits – Deferral Provisions in Sections PS 3250 and PS 3255

The Office of the Auditor General of Newfoundland and Labrador offers the following comments on the Invitation to Comment:

#	Question	Response
1	Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?	Yes. A review is necessary because: • Equivalent standards issued by other standard setters have moved away from deferral approach, including Section 4600-<i>Pension Plans</i>, which is in use in the Public Sector. • Other public sector standards, such as PS 3410 – <i>Government Transfers</i>, seem to encourage immediate recognition rather than deferral. • The amount of unamortized gains and losses often has a material impact on the net asset/liability reported on the Statement of Financial Position.
2	(a) Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position? (b) Are there any additional components that should be separately identified and considered?	The components that are based on estimates should be considered separately from components that are not based on estimates. The components that are based on estimates are changes in actuarial assumptions and experience adjustments. These components should be accounted for in the same way as both represent changes in previous accounting estimates. [.054] No.
3	Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?	We believe that the “realized and unrealized gains and losses” method is more appropriate because it is more objective and less exposed to management bias. This approach is also consistent with how other financial assets held by the entity are measured under PS 3450 – <i>Financial Instruments</i>.
4	Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement	No.

Office of the Auditor General – Newfoundland and Labrador
Response to PSAB Invitation to Comment
Employment Benefits – Deferral Provisions in Sections PS 3250 and PS 3255

#	Question	Response
	of financial position?	
5	Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?	No. The discussion outlines the extent to which the various assumptions are stable and within the control of the employer. A primary argument to support deferral and amortization of actuarial gains and losses is because of their tentative nature and because further adjustments will likely be required in the future [.014]. The discussion in paragraphs .018-.065 implies that many of the components are based on stable assumptions. This would support the immediate recognition of actuarial gains and losses.
6	Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?	No. Some of the key considerations identified in paragraphs .070-.091 include: • [.082]. A principles-based standard should faithfully represent the financial effects of employment benefits in good and bad years. • [.084]. It may be true that governments' power to tax makes public sector pension plans less prone to solvency risk than private sector pension plans. However, governments still need to maintain sustainable taxation policies. • [.086]. Immediate recognition of changes in the value of the accrued benefit obligation and plan assets in the annual surplus/deficit would definitely have the potential to result in suboptimal decisions by governments, especially those with balanced budget legislation. However, as outlined in [.087] immediate recognition does reflect the risk related to employment benefit plans.
7	Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?	No.

Office of the Auditor General – Newfoundland and Labrador
Response to PSAB Invitation to Comment
Employment Benefits – Deferral Provisions in Sections PS 3250 and PS 3255

#	Question	Response
8	Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?	No.
9	Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?	No.
10	Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?	Two additional arguments to consider would be: • Additional costs involved, for both preparers and auditors, with any scenarios requiring deferral and amortization as opposed to immediate recognition. • Allowing deferral and amortization, rather than immediate recognition, adds complexity to the financial statement disclosures.
11	How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?	<u>Statement of Operations</u> The components of the changes in the accrued benefit obligation and the plan assets that are within the scope of this Invitation to Comment (Changes in actuarial assumptions and experience adjustments) should be recognized immediately in annual surplus/deficit. Immediate recognition would be the most suitable alternative because: • It would better reflect the risks associated with defined benefit plans in the Statement of Operations – providing a more faithful representation of their financial effects on the entity. It would also be easier for the users of the financial statements to understand [.010.(e), .098]. • It would be consistent with the accounting for changes in other accounting estimates. Actuarial assumptions are estimates of future events and factors. Experience adjustments and changes in actuarial assumptions are adjustments to previous accounting estimates [.095]. <u>Statement of Financial Position</u> Since we consider immediate recognition to be the

Office of the Auditor General – Newfoundland and Labrador
Response to PSAB Invitation to Comment
Employment Benefits – Deferral Provisions in Sections PS 3250 and PS 3255

#	Question	Response
		most suitable alternative there would be no unamortized actuarial gains and losses. Therefore, the net benefit liability/asset as reported on the Statement of Financial Position would consist of the accrued benefit obligation and any plan assets.
12	On what basis should plan assets be valued?	Plan assets should be valued using market values because: • It most faithfully represents the best estimate of the assets available to satisfy the accrued benefit obligation at the financial statement date [.122]. • The concept would be familiar to many users of financial statements [.124]. • It is consistent with how other financial assets that are managed on a fair value basis are valued [.125]. • Using market-related value would be similar to a deferral mechanism [.128].
13	Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.	The Government of Newfoundland and Labrador measures plan assets at market value.
14	What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.	The Government of Newfoundland and Labrador records a liability for self-insured Worker's Compensation Benefits, the amount of which is determined using an actuarial valuation. Any actuarial gains and losses are recognized immediately. This is due to the low level of materiality of total premiums, interest and other WHSCC expenditures.
15	Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?	We believe that PSAB should assess, as part of the first phase of the project, whether the definition of a plan asset as outlined in the current PS 3250 remains appropriate in today's environment. The definition includes the statement: "...For purposes of this Section, plan assets do not include amounts held by the government and not yet paid into the trust or other legal entity." As currently written, the definition of plan assets allows scenarios where a non-transferable debt issued by the reporting entity to the pension plan to meet the definition of a plan asset. This is

Office of the Auditor General – Newfoundland and Labrador
Response to PSAB Invitation to Comment
Employment Benefits – Deferral Provisions in Sections PS 3250 and PS 3255

#	Question	Response
		because the amount promised under a non-transferable debt instrument could be considered to have been “paid into the plan”. This means that an entity could reduce the net benefit liability recognized on its statement of financial position by issuing non-transferable debt instruments to a plan. This would result in the net benefit liability reported on the statement of financial position no longer providing a faithful representation of the reporting entity’s employee benefit obligations. While additional information could be provided in note disclosure it could be confusing and misleading to the financial statement users. The principle underlying the definition of plan assets requires that assets are moved beyond the reporting entity’s control so that they are only available to meet employee benefit obligations. Following this principle, amounts unpaid under a non-transferable debt instrument issued by the employer to a benefit plan is similar to unpaid future contributions. This has been recognized by other standard setters.
16	Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?	We cannot assist the Board with this matter as we are not in a position to provide the benefit plan data necessary for field testing.

March 3, 2017

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Michael,

Re: Invitation to Comment – Employment Benefits

On behalf of the Baycrest organization, we would like to thank the Public Sector Accounting Board (“PSAB”) for providing us the opportunity to comment on the Employment Benefits Invitation to Comment. As an organization, Baycrest supports the current deferral and amortization approach for actuarial gains or losses. We recognize that such accounting treatment is not consistent with other accounting frameworks which have moved away from this method to immediate recognition. However, we believe that maintaining deferral and amortization is valuable to Canadian public sector organizations.

From an Ontario hospital sector perspective, we are mandated by the Ontario Ministry of Health and Long-Term Care to operate with a balanced budget annually. Year over year significant fluctuations in actuarial gains and losses being recognized through the income statement could have a direct impact on patient care. For example, a significant actuarial loss which has to be recognized in the income statement may require the organization to make front-line care staff terminations in order to meet our mandated requirement for a balanced budget. As an organization, we struggle with a proposal which would result in accounting standards dictating the potential termination of nurses, social workers and personal support workers which could impact in patient care and outcomes.

The current deferral and amortization approach to actuarial gains and losses allows for stability and predictability of financial results. As a public sector organization, the ability to budget, forecast and monitor variances to budget and forecast is critical. As a prudent organization we manage contingencies to ensure that we meet our balanced budget requirement each year. Such contingencies are focused on operational matters such as unexpected funding shortfalls or higher than expected operating expenses (e.g. utilities, raw food costs). Introducing contingent planning to manage an esoteric matter such as actuarial gains and losses does not seem prudent to us as a public health care organization. Moreover, this could cause reputational harm to the profession when accounting policy could be potentially impacting patient care decisions.

Should PSAB move away from a deferral and amortization approach for actuarial gains and losses, we believe that any immediate recognition of gains or losses should be through the statement of re-measurement gains and losses rather than through the income statement. Such an approach would allow for immediate recognition of actuarial gains and losses without having such fluctuations potentially causing volatility to the income statement. This would be similar to the testament under Part III of the Handbook where such amounts are recorded directly to the statement of changes in net assets in order to avoid volatility.

Based on our review of the Invitation to Comment, we strongly urge PSAB to maintain the current defer and amortize approach to actuarial gains and losses. We would like to thank PSAB for considering our comments as part of your process and would welcome the opportunity to discuss this matter with you further at your convenience.

Regards,

A handwritten signature in dark ink, appearing to read "BMackie".

Brian Mackie
VP Finance and CFO

bmackie@baycrest.org
416-785-2500 x. 2643

A handwritten signature in dark ink, appearing to read "ABattista".

Anthony Battista
Deputy CFO

abattista@baycrest.org
416-785-2500 x. 2441

Formulaire de réponse
Pour être pris en considération,
les commentaires doivent être reçus au plus tard
le 3 mars 2017.

Avantages sociaux : dispositions relatives au report énoncées dans les chapitres SP 3250 et SP 3255

Appel à commentaires

Le CCSP invite les intéressés à formuler des commentaires sur tous les aspects de l'appel à commentaires.

Ce formulaire ne vise pas à restreindre votre réponse. Chaque boîte de texte acceptera l'intégralité de vos commentaires.

Vous pouvez sauvegarder le formulaire et l'envoyer, pour examen, à d'autres personnes de votre organisation avant de le soumettre.

Nom : Lucie Pageau, CPA, CA et Marie-Josée Cyr, CPA, CA

Organisation : Contrôleur des Finances - Québec

Courriel : Lucie.Pageau@cf.gouv.qc.ca et Marie-Josée.Cyr@cf.gouv.qc.ca

Commentaires généraux :

Nécessité d'examiner les dispositions relatives au report

1. Êtes-vous d'accord qu'il est nécessaire que le CCSP examine si les dispositions relatives au report énoncées dans les normes sont appropriées?

Nous sommes d'avis qu'il est opportun d'examiner si les dispositions relatives au report énoncées dans les normes sont toujours appropriées. Cependant, puisque le cadre conceptuel est à la base du développement des normes comptables pour le secteur public, il est primordial qu'il soit complété rapidement.

Composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

- 2a. Parmi les composantes des variations de la valeur de l'obligation au titre des prestations constituées présentées au tableau 2 et aux paragraphes .015 à .056, certaines devraient-elles être prises en considération séparément aux fins de l'établissement de la méthode de constatation des variations de la valeur de l'obligation au titre des prestations constituées dans l'état des résultats et dans l'état de la situation financière, et si oui, lesquelles?

Nous sommes d'avis qu'il est effectivement difficile en pratique de distinguer les ajustements liés à l'expérience de ceux liés

aux changements d'hypothèses actuarielles. Ainsi, nous ne croyons pas opportun de considérer des méthodes de constatation différentes pour ces composantes.

Toutefois, nous croyons que le concept de report trouve son sens uniquement dans le contexte où les gains et les pertes actuariels sont de nature provisoire. C'est ce qui permet un traitement comptable différent des autres estimations comptables que l'on retrouve dans le secteur public. La détermination de ce qui constitue une nature provisoire devrait être précisée et cohérente avec les normes actuarielles.

2b. Y a-t-il d'autres composantes qui devraient être prises en considération séparément?

Non. Nous n'en voyons pas d'autres.

3. Laquelle des façons de ventiler la composante «rendement des placements» des variations de la valeur des actifs du régime présentées aux paragraphes .057 à .065 est la plus appropriée aux fins de l'établissement de la méthode de constatation des variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

Nous sommes d'avis que la ventilation de la composante « rendement des actifs » selon la méthode des rendements prévus et imprévus est la moins complexe en pratique et permet de prendre en compte la valeur temps de l'argent pour les actifs du régime.

4. Y a-t-il d'autres façons de ventiler la composante «rendement des placements» des variations de la valeur des actifs du régime qui devraient être prises en considération aux fins de l'établissement de la méthode de constatation des variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

Pas à notre connaissance.

5. Y a-t-il des aspects des composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime qui devraient être pris en considération aux fins de l'établissement de la méthode de constatation de ces variations dans l'état des résultats et dans l'état de la situation financière et qui ne sont pas mentionnés aux paragraphes .018 à .065?

Nous sommes d'avis que les principaux aspects ont été pris en compte dans le document de consultation.

Autres méthodes et questions non relevées

6. Y a-t-il des questions importantes à considérer pour déterminer la méthode de constatation de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .070 à .091?

À notre avis, les questions importantes sont soulevées.

7. Y a-t-il des méthodes possibles de constatation des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .092 à .109 et .115 à .120?

Le paragraphe .093 indique que la variation de la valeur de l'obligation et des actifs du régime pourra être constatée dans un poste de l'état des résultats hors de l'excédent ou du déficit de l'exercice. Selon le modèle d'information financière proposé par le groupe de travail sur le cadre conceptuel, cela pourrait également être hors du résultat net des services/programmes, mais inclus dans le résultat global, le cas échéant.

Par ailleurs, nous croyons que la variation de la valeur de l'obligation au titre des prestations constituées doit

nécessairement être comptabilisée à l'état des résultats un jour ou l'autre. En effet, les états financiers des gouvernements doivent rendre compte de leur gestion et bien que l'état de la situation financière soit un état important, l'état des résultats et le suivi du budget sont tout aussi cruciaux en termes de reddition de comptes et de bonne gestion de fonds publics. En effet, dans l'évaluation de la performance des gouvernements et l'évaluation de la redistribution de la richesse, les citoyens mettent en perspective le niveau d'imposition et de taxes prélevé avec les dépenses d'un gouvernement. Il est conceptuellement difficile d'expliquer des dépenses qui ne transitent pas par l'état des résultats.

8. Y a-t-il des périodes d'amortissement ou bases d'amortissement possibles aux fins de l'application de la méthode de la constatation reportée qui ne sont pas mentionnées aux paragraphes .110 à .114?

Non. Nous n'en voyons pas d'autres.

9. Y a-t-il des méthodes possibles d'évaluation des actifs du régime qui ne sont pas mentionnées aux paragraphes .121 à .128?

Non. Nous n'en voyons pas d'autres.

10. Y a-t-il des arguments importants relatifs à l'une ou l'autre des méthodes possibles de constatation dans l'état des résultats (paragraphes .092 à .109) ou dans l'état de la situation financière (paragraphes .115 à .120) ainsi que des méthodes possibles d'évaluation des actifs du régime (paragraphes .121 à .128) dont les paragraphes mentionnés ne font pas état?

Non

Traitement comptable de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

11. Comment chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime devrait-elle être constatée dans l'état des résultats et dans l'état de la situation financière?

Nous sommes d'accord avec la méthode actuelle du report comme mentionné à la réponse à la question 2.

12. Quelle devrait être la base d'évaluation des actifs du régime?

La valeur redressée par rapport au marché devrait être utilisée lorsqu'elle permet d'avoir une bonne approximation de la valeur économique actuelle tout en réduisant au minimum les fluctuations à court terme.

Méthodes comptables actuelles

13. Évaluez-vous les actifs du régime à la valeur de marché ou à une valeur liée au marché? Si vous avez recours à une valeur liée au marché, expliquez comment elle est établie.

Le gouvernement du Québec a mis en place le Fonds d'amortissement des régimes de retraite (FARR) afin de constituer un actif désigné à pourvoir au paiement d'une partie ou de l'ensemble des prestations des régimes de retraite. Les placements du FARR et ceux de fonds particuliers des régimes de retraite et des programmes d'avantages sociaux futurs sont évalués à une valeur de marché redressée. Selon cette méthode d'évaluation, l'écart entre le rendement réel selon une valeur de marché et celui prévu est amorti sur cinq ans. De plus, les écarts entre le rendement réalisé et le rendement prévu, qui sont étalés sur cinq ans, sont pris en compte dans les revenus du FARR au moyen d'un amortissement sur la durée moyenne estimative du reste de la carrière active (DUMERCA) des participants aux régimes de retraite.

Lorsque la valeur de marché redressée du fonds d'un régime de retraite est supérieure à celle de ses obligations, l'excédent qui en résulte est plafonné, par une provision pour moins-value, afin que le passif au titre des régimes de retraite ne reflète

que l'avantage futur que le gouvernement s'attend à tirer de cet excédent.

14. Quelle méthode comptable appliquez-vous pour la constatation des gains et pertes actuariels (constatation reportée ou immédiate) liés aux avantages postérieurs à l'emploi et aux congés rémunérés qui ne s'acquièrent pas ou ne s'accumulent pas? Expliquez pourquoi cette méthode a été choisie.

Le Régime de rentes de survivants prévoit le paiement d'une rente au conjoint et aux enfants à charge à la suite du décès d'une personne admissible (une catégorie de salariés du gouvernement). Les gains et pertes actuariels sont reportés sur une période qui correspond à l'espérance de vie moyenne restante des bénéficiaires, soit une période associée à ce type d'avantage qui s'apparente à de l'assurance-vie.

Questions non relevées quant au projet

15. Y a-t-il des questions particulières liées aux chapitres SP 3250 et SP 3255 qui ne sont pas relevées dans la section «Aperçu général du projet» (page ii) et que le CCSP devrait examiner dans le cadre du projet?

Les 3 sujets suivants devraient être traités s'ils ne sont pas prévus :

- la provision pour plafonnement de l'actif;
- le traitement comptable des avantages postérieurs à l'emploi qui s'acquièrent ou s'accumulent;
- les compressions/règlements.

Participation à d'éventuels projets pilotes

16. Voudriez-vous participer à d'éventuels projets pilotes, qui pourraient comprendre l'utilisation de données réelles sur des régimes d'avantages pour déterminer les conséquences financières de diverses méthodes?

Nous sommes disposés à collaborer. Il importe toutefois de mentionner que les données réelles appartiennent aux administrateurs des régimes.

Cliquez ici pour soumettre

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255

Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name:	Jason Li / Canice Mok
Organization:	The Regional Municipality of York (York Region)
E-mail:	Jason.Li@york.ca / Canice.Mok@york.ca

General comments:

We thank PSAB for the opportunity to comment. Employment benefits are a significant component of the Region's financial statements. Proposed changes to the standards would have a material impact on the financial results.

In the long-term, immediate recognition of actuarial gains and losses would provide many benefits to users. Some of these benefits are explained below:

- 1) Immediate recognition provides a more accurate financial picture, allowing users to better assess and make judgement concerning government financial operations and management
- 2) While there may be greater volatility in financial results, it more accurately reflects the government's financial viability in the short and long-term, thus providing more informative information for users to assess and make judgements.
- 3) Immediate recognition results in less estimates being used, providing a more accurate picture of the organization's financial position.
- 4) Immediate recognition is easier to administer as there is less administrative work (e.g., journal entries) to be completed.
- 5) The financial burdens of the current generation are not transferred to the future generation, allowing for inter-generational equity. With immediate recognition, users are able to obtain a better understanding and assessment of the government's performance in managing the economic resources for which it is responsible (PS 1000.20f).

However, while there are advantages of immediate recognition, there are also several disadvantages:

- 1) Inability to incorporate actuarial gains and losses into the budgeting process, resulting in inaccurate budgets – as gains and losses are recognized as they occur, there is no forewarning as to the magnitude of any gains and losses. Thus, it cannot be incorporated into the budgeting process, which could result in an inaccurate budget and lack of available financial resources to meet any gains and losses.
- 2) Greater volatility in financial results – deferral and amortization smooths out the actuarial gains/losses over a period of time. However, with immediate recognition, this does not occur. Thus, there could be large swings in gains/losses over a period of time, resulting in greater volatility.

Furthermore, we recognize that there are benefits of deferring and amortizing actuarial gains and losses over EARS, which include:

- 1) Better budgeting – actuarial gains and losses are unplanned for. Deferring and amortizing them over a number of years

allows these gains/losses to be incorporated into the budgeting process.

2) Less volatility in financial results – deferring and amortizing the actuarial gains/losses smooths out the presentation of financial results, resulting in less volatility in any analysis.

However, some of the drawbacks of deferring and amortizing actuarial gains and losses over EARSL include:

1) Inaccurate representation of the financial situation – deferring and amortizing actuarial gains and losses does not reflect the gap between current obligations and future obligations, thus providing an inaccurate representation of the financial situations. This is in contrast to the end user's goal of understanding and assessing a government's ability to meet its short-term and long-term financial obligations (PS 1000.20a)

2) Lack of inter-generational equity – similar to the point above, by providing an inaccurate representation of the financial situation, the burden of meeting financial obligations is transferred from the current generation (to which the obligations are intended for) to the future generation. This inequality is in contrast to the end user's goal of understanding and assessing the performance of government in managing the economic resources for which it is responsible (PS 1000.20f).

In conclusion, arguments both for and against each school of thought must be grounded in financial statement concepts. In particular, we must ensure that the financial statements accurately reflect the information needs of users. According to PS 1000.18, "users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management."

If the future directive is to remove the deferral provision and recognize any unamortized gain or losses immediately, PSAB should give consideration to the implementation process. In particular, PSAB should give due consideration to the length of time to implement, and the impact it would have on public sector entities, particularly around budgeting and financial sustainability. We implore PSAB to consider a phased implementation approach, with the impact of immediate recognition to be phased in over a three, or other appropriate, period of time.

We also request PSAB to take into consideration the substance and nature of reserves. In particular, we urge PSAB to consider revising the definition of "plan assets" to include reserves. As will be explained in more detail later on in this submission, reserves do not currently meet the definition of "plan assets." However, in many public sector entities, reserves cannot be set up without the consent and approval of Council. Thus, in substance and nature, reserves are "restricted and segregated", and are "plan assets".

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes, given a convergence of PSAS towards IFRS and a substantially different external, regulatory, and political environment than existed when PS 3250 was first developed, there is a need for PSAB to consider whether the deferral provision in the standards continue to be appropriate.

Components of changes in the accrued benefit obligation and plan assets

2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

Changes in actuarial assumptions and experience adjustments are suggested to be grouped together as they have a similar degree of controllability and are also, collectively, factors affecting the valuation of the obligations owed by the organization to its employees.

To a certain degree, these factors are controllable by the organization (e.g., experience adjustments are controllable by the public sector entity as they reflect the actual experience of the entity). However, many of the factors are beyond the entity's control (e.g., discount rate is the market rate, economic conditions are affected by the broader environment). Given that

actuarial assumptions and experience adjustments are rooted in factors beyond the public sector entity's control but are controllable to a small degree, it is suggested that they be grouped together and considered separately from other components.

2b. Are there any additional components that should be separately identified and considered?

PSAB should also take into consideration the effect of changes in overarching legislation would have on the valuation of the ABO. For example, in April 2016, the Ontario provincial government passed legislation to give first responders Workplace Safety Insurance Board (WSIB) coverage for Post Traumatic Stress Disorder (PTSD). While no concrete analysis or studies have taken place to determine the effect this change has had on the number of WSIB claims, it can be extrapolated that the number of WSIB claims would have increased. Thus, this would have an effect on the value of the ABO, and should also be separately identified and considered.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

Please note that York Region does not have any assets that meet the definition of plan assets.

The investment return component refers to the dividends, interest, and capital gains generated by plan assets. Plan assets are typically held in the form of financial instruments, such as equity or bond instruments. As such, it is important to draw on PS 3450 Financial Instruments to formulate a conclusion on the appropriate treatment of the investment return component - whether it should be recognized as realized/unrealized gain or losses, or as expected/unexpected return on plan assets.

According to PS 3450.056 interest and dividends attributable to financial instruments are reported in the statement of operations and are not remeasurement gains or losses. Thus, it would be inappropriate to recognize the investment return as realized/unrealized gain or loss, and recognition as expected and unexpected return on plan assets is more appropriate.

However, it would be inappropriate to recognize capital gains as remeasurement gains or losses. Capital gains (or losses) refers to changes in the valuation of financial instruments. According to PS 3450.053, a change in the fair value of a financial instrument should be recognized in the statement of remeasurement gains and losses as a remeasurement gain or loss until the financial instrument is derecognized. Thus, it would be appropriate to recognize capital gains/losses as realized/unrealized gain or loss.

As such, a "hybrid" model may be more appropriate to measure the investment return component of the changes in the value of plan assets - interest and dividends recognized as expected and unexpected return through the statement of operations, and capital gains/losses recognized as realized/unrealized gains and losses through the statement of remeasurement gains and losses.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

N/A

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

It is suggested that the components identified in Chart 2 be separated into three distinct sections based on the degree of controllability in determining their accounting in the statement of operations and the statement of financial position. These three sections are: (1) current service cost, past service cost, interest cost on obligation, and benefit payments; (2) changes in actuarial assumptions and experience adjustments; (3) plan curtailment and plan settlement.

Section 1 (current service cost, past service cost, interest cost on obligation, and benefit payments) should be grouped together and be treated in the same manner when determining their accounting in the statement of operations and the statement of financial position because of their short-term focus and controllability by the public sector entity. These components are decisions that have made by the public sector entity. As there is no need to delay these decisions, they should be recognized immediately. Furthermore, these are the components that most frequently impact the valuation of the ABO and, thus, should have the same accounting treatment.

The treatment for Section 2 (changes in actuarial assumption, experience adjustments) is discussed in this document in Question #2a.

Section 3 (plan curtailment, plan settlement) should be grouped together and treated in the same manner when determining their accounting in the statement of operations and the statement of financial position because these events are not controllable by the public sector entity, have a high impact on the valuation of the ABO, but are infrequent in nature. Decisions on plan curtailments and settlements are often made as part of a broader policy discussion between legislative bodies, and are not controllable by public sector entities. As well, while plan curtailments and settlements are infrequent in nature, they can have a high impact on the valuation of the ABO. Thus, they should be grouped together, and should have the same accounting treatment.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

PS 3250.073 states that "a government would look to the substance of the temporary deviation to determine the most appropriate accounting." Specific guidance should be provided on determining the appropriate accounting treatment for a temporary deviation from the benefit plan, particularly around defining the "substance of the temporary deviation".

In the current economic and political environment, a "temporary deviation" may, in fact, become a long-term event. For example, the Ontario government instituted a wage freeze for its executives and senior officers, spanning a 5-6 year period between 2012 to 2017. In this situation, it was not "temporary" in nature, as it was not for a short-term period of 1-3 years. However, it was not "permanent" in nature, as it was not irrevocable. Therefore, it may not be appropriate to classify it as a temporary deviation from the benefit plan.

In determining whether an event is a "temporary deviation", some suggested guidance to be provided in determining the substance of the deviation includes:

- 1) Intent of the public sector entity - whether the deviation is intended to be temporary or permanent.
- 2) Length of time of the deviation - guidance should be provided around on what length of time would be considered to be temporary (e.g., 1-3 years)
- 3) Past practices - has the public sector entity acted in a similar fashion in the past? If so, what was the impact?

As well, guidance on the appropriate accounting treatment to recognize a change from a "temporary" to "permanent" (irrevocable) deviation should also be provided.

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

As previously discussed in #2a and #5, recognition of the changes in the value of the ABO and plan assets should be based on the degree of controllability by the public sector entity. Those changes that are controllable by the organization should be recognized immediately, while those that are not controllable should only be recognized when events leading to controllability have occurred.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

According to an article published by CNN, an analysis of LinkedIn data revealed that millennials are job-hopping more than previous generations. Over the last 20 years, data has revealed that the number of companies people worked for in the five years after they graduated has nearly doubled from 1.6 jobs to 2.85 jobs. Given this change in career trajectory for those who are easing into the workforce, PSAB should consider a more detailed EARSL analysis. One suggestion is to use a weighted average EARSL, with the weights based on the proportion of pre-determined population groups subscribed to the pension plan.

For example, an organization has 1,000 employees and 5% are from ages 25-35, 25% are from ages 36-55, and 70% are from ages 56 to 65. The tenure of employees between ages 25-35, 36 to 55, and 46 to 65 is expected to be 3 years, 8 years, and 10 years respectively. Therefore, the EARSL should take into consideration the weighting, and the expected years of service, of each population group.

The formula would be: $[(\text{population group \%}) \times (\text{\# of employees}) \times (\text{average tenure of population group})] / \text{total \# of employees}$.

CNN article: <http://money.cnn.com/2016/04/12/news/economy/millennials-change-jobs-frequently/>

Linkedin article: https://blog.linkedin.com/2016/04/12/will-this-year_s-college-grads-job-hop-more-than-previous-grads

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

N/A

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

N/A

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

Changes in the value of the plan assets should be recognized in the statement of operations as remeasurement gains or losses, and as increases or decreases to assets in the statement of financial position. Changes in the value of the ABO should be recognized as increases or decreases to liability in the statement of financial position, and remeasurement gains or losses in the statement of operations.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Based on the current definition of plan assets, York Region does not have any assets that would qualify as plan assets.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

York Region recognizes actuarial gains and losses on a straight-line basis over the expected average remaining service life

(EARSL) of the related employee groups. This reduces volatility in the figures presented in the financial statements, allowing for better forecasting and budgeting capabilities. On York Region's financial statements, actuarial gains and losses are recognized over an 8 year period, the length of the Region's EARSL.

PSAB is aware that municipalities are not required to budget for employment benefits. This exemption is enshrined in Ontario's Municipal Act, 2001. If employment benefits were included as part of the budgeting process, a more accurate picture of the public sector entity's liabilities and financial situation would be portrayed. However, depending on the value of actuarial gains or losses, the volatility of the entity's finances could increase.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

One specific issue related to PS 3250 and 3255 that have not been identified that PSAB should consider in this project is revising the definition of "plan assets". Currently, plan assets are assets segregated and restricted in a trust or other legal entity separate from the reporting government to provide for retirement benefits under the following conditions:

- 1) the assets in the separate entity are to be used only to settle the related ABO, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government only if the remaining assets of the trust are sufficient to meet the plan's obligations; and
- 2) to the extent that sufficient assets are in the separate entity, the government will have no obligation to pay the related retirement benefits directly.

We implore PSAB to take into consideration the nature and substance of reserve and reserve funds, and consider revising the definition of "plan assets" to include reserve and reserve funds. While reserves are not segregated and restricted in a trust or other legal entity that is separate from the reporting government, reserves generally require Council resolution to be created. As well, reserves are generally set up for a specific purpose (e.g., reserve for WSIB), and cannot be used for other purposes. In effect, reserves are restricted and segregated, and can be created for the specific purpose of meeting employment benefit obligations. Thus, we urge PSAB to take into consideration this issue and consider revising the definition of "plan assets" to include reserve and reserve funds.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Yes, York Region would be interested in participating in future field tests, which we understand can involve using actual benefit plan data to identify the financial implications of various alternatives.

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March 3, 2017

Mr. Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Mr. Puskaric:

Re: Invitation to Comment on Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255

We are pleased to respond to the Invitation to Comment on Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255 issued by the Public Sector Accounting Board (PSAB or the Board).

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes. We agree that PSAB should consider whether the deferral provisions continue to be appropriate. In some cases the effect of deferring actuarial gains or losses can result in an asset being recognized on a government's balance sheet when there is no underlying economic resource and therefore no asset as defined in PS 1000, *Financial statement concepts* or PS 3210, *Assets*. For example, the accrued benefit obligation may exceed the fair value of plan assets, as calculated by PS 3250, *Retirement benefits*, but a pension asset would be presented on the balance sheet because unamortized actuarial losses have not yet been recognized.

Recent public sector accounting standards such as PS 3260, *Liability for contaminated sites*, require a liability to be measured at management's best estimate of the amounts required to settle the liability. PS 3450, *Financial instruments* requires or permits many investments to be measured at fair value. The current deferral provisions mean that a pension liability is often carried at an amount that is not management's best estimate, and plan assets are measured at amounts that are not their realizable amounts.

The use of deferral provisions may, therefore, result in the statement of financial position not fairly presenting the actual financial position of the government as at the period end.

Private sector accounting frameworks such as IFRS or ASPE used in Canada, have been amended to remove similar deferral provisions because of similar concerns that deferrals distort the financial position of an entity. We do not see a compelling reason why the same concerns do not apply to Canadian public sector entities.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Mr. Michael Puskaric, CPA, CMA
Public Sector Accounting Board
March 3, 2017

Components of changes in the accrued benefit obligation and plan assets

2. (a) **Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?**

We believe all the components of the changes in the value of the accrued benefit obligation should be accounted for together. In practice, significant judgments may be required to separate the effect of experience gains/losses from the effect of changes in assumptions. Both experience gains and losses and the effect of changes in assumptions result from a change in the best estimate of the liability incurred for service provided to date and we believe they should be recognized at the same time on the statement of financial position. If certain changes are included in the statement of operations and other changes are excluded, these judgments may have a very significant effect on the reported performance of the government. While it might be feasible to separate out the impacts of plan-specific changes (mortality rates, salary assumptions, plan benefit changes) from general economic impacts (inflation rates, discount rates, changes in fair value of assets) and treat the effects differently, we do not see a sound conceptual basis for treating financial assumptions differently from non-financial assumptions as both are generally outside of the control of the entity, nor that this would result in decision-useful information for users of the financial statements.

We do not believe that disaggregation of the source of the change in estimate is of sufficient benefit to users of government's financial statements to warrant introducing these additional judgments into a measure of performance. Rather we recommend that the Board focus its efforts on whether all changes in estimates in respect of pension obligations should be recognized in the government's surplus/deficit for the year or outside of surplus/deficit (see our response to Question 11 below).

- (b) **Are there any additional components that should be separately identified and considered?**

We did not identify any additional components.

3. **Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?**

We believe that an element of the investment return should be recognized in the statement of operations if an element of interest expense on the unwinding of discount on the accrued benefit obligations is also recognized in the statement of operations. It would be asymmetrical to require an entity to recognize an expense for the time-value of money on the discounted accrued benefit obligation without requiring an entity to recognize that a portion of the obligation has already been funded. Under IAS 19 and IPSAS 39 the interest cost on benefit plans is calculated as a net finance cost on the unfunded portion of the plan



Mr. Michael Puskaric, CPA, CMA
Public Sector Accounting Board
March 3, 2017

(the effect of unwinding the discount on the accrued benefit obligation less a return on assets calculated at the same rate). We support applying a similar approach to investment returns under PSAS, as this reflects a cost of carrying an unfunded pension liability. In essence this approach applies an “expected” return component on the assets, but the expected return component is measured only by reference to the liability’s discount rate, not determined by reference to the expected long term return on plan assets. Under IAS 19 and IPSAS 39, excess return on assets beyond the discount rate form part of actuarial gains and losses. Therefore the impact of this approach can only be fully determined under PSAS in conjunction with Phase 2 of the Employment Benefit project on discount rates. For example, if the Board determines under Phase 2 that a bond rate is required as the discount rate for the liability, the effect of this approach could be quite different than if the Board required or continued to accept the expected return on assets as an acceptable discount rate for the liability.

To the extent that the Board determines that all changes in plan assets and accrued benefit obligations are recognized immediately in the statement of operations, the separation of the investment return into components does not impact surplus/deficit overall. It may not be meaningful to separate the components of return for presentation in the statement of operations, without additional guidance on how these elements would be presented in the statement of operations.

We do not believe that recognizing the realized and unrealized investment return components separately would be an appropriate model. To the extent a pension plan is funded by plan assets these plan assets are maintained in a separate trust. In Canada, usually the plan assets cannot be withdrawn from the plan by the plan sponsor. The timing of the purchase or sale of investments within the plan assets is irrelevant to the sponsor, as the only way the sponsor can use the plan assets existing within the plan is by using them to pay for benefits (either past benefits, or in cases where plan assets existing the accrued benefit obligation, future benefits).

To permit or require asset returns to be recognized in the statement of operations when they are “realized” (i.e. an underlying investment is sold) but not when they remain invested in the same assets could have some unintended effects. For example, if a pension plan sold all their assets with fair value gains on the last day of the fiscal year, this could trigger a statement of operations gain. Equally, a pension plan could sell only the assets with fair value losses to trigger a statement of operations loss in the fiscal year. In both these circumstances nothing of substance has changed within the plan – the plan assets still have the same fair value, and the plan assets must still be maintained within the plan and will be reinvested unless they must be used to pay benefits in the near term.

Additionally, pension plans often invest a portion of their plan assets in illiquid long-term investments such as infrastructure or real estate assets. For these projects cash flows may be received over the life of the project and may consist of both a return on capital (realized return) element and a return of the original capital invested (not part of a realized return). Requiring the pension administrator to determine what cash flows are realized vs unrealized in these situations would result in additional cost and effort for limited benefit.



Mr. Michael Puskaric, CPA, CMA
Public Sector Accounting Board
March 3, 2017

- 4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?**

As noted in the response to Question 3, to the extent that the Board determines that all changes in plan assets and accrued benefit obligations are recognized immediately in the statement of operations, (see our response to Question 11) the separation of the investment return into components does not impact surplus/deficit overall. In this case, we do not see significant benefit in breaking down the investment return into components, and the plan assets could be measured at fair value through the statement of operations.

- 5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?**

We did not identify any additional components.

Alternatives and considerations not identified

- 6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?**

We did not identify any additional alternatives or considerations.

- 7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?**

We did not identify any additional alternatives.

- 8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?**

We did not identify any additional components.

- 9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?**

We did not identify any additional components.



Mr. Michael Puskaric, CPA, CMA
Public Sector Accounting Board
March 3, 2017

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

Please see our response to Question 11.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

We believe that all components of the change in value of the accrued benefit obligation and plan assets should be recognized in the statement of financial position, as this results in a fair presentation of the sponsor's net assets or liabilities in respect of each benefit plan, is consistent with the definition of assets and liabilities in PS 1000, and is consistent with other accounting frameworks used within Canada and globally.

Considering the current conceptual framework of PS 1000, recognition of all changes in the value of the accrued benefit obligation and plan assets in the statement of operations in the period in which they occur would be the most consistent with the Financial Statement Concepts of revenue and expenses. Current Section 1000 defines revenues quite simply as increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period. Expenses are similarly defined as decreases in economic resources, either by way of decreases in assets or increases in liabilities, resulting from the operations, transactions and events of the accounting period.

However, we recognize that recent PSAB standards, specifically PS 3450 and PS 2601, *Foreign currency translation* permit certain changes in value to be recognized in the statement of remeasurement gains and losses that are recognized in the statement of operations at a future date when the changes in value are crystallized, and that PS 1201, *Financial statement presentation* was correspondingly amended to clarify that revenues and expenses, other than remeasurement gains and losses, should be recognized in the statement of operations. However, other recent standards, such as PS 3260, do not permit changes in the estimates of the liabilities to be recorded outside of the statement of operations, notwithstanding that, similar to employment benefit liabilities, these liabilities may sometimes be long term in nature and fluctuate significantly over time due to revised costs estimates and discount rates, when such amounts are discounted.

Generally, we believe that accounting standards are more robust if they result in similar items being treated similarly, and are consistent with the accounting frameworks financial statements concepts. As the conceptual framework is currently being re-examined, we recommend that any proposed standard on employment benefits is either consistent with the latest developments in the conceptual framework project or the reasons for making an exception are supported by a clear cost/benefit assessment.



Mr. Michael Puskaric, CPA, CMA
Public Sector Accounting Board
March 3, 2017

Pension and other benefit obligations are an operating expense that will ultimately be settled in cash. Actuarial gains and losses and other changes in the estimate of the benefit obligation and plan assets (if any) should therefore ultimately be recognized in the statement of operations in order to recognize the full cost of services provided over time. For this reason we do not support a “no recognition” alternative.

However, we also acknowledge that changes in the fair value of plan assets, the cost of financing (discount rate) and other actuarial assumptions may change from period to period creating significant volatility if all amounts were recorded immediately in the statement of operations. While these changes represents the best estimate of the net pension asset or liability at a point in time, it may not fairly represent the pension cost for the discrete period as it also reflects the cumulative impact of the change of assumptions of unpaid benefit promises earned in prior years.

Therefore we support a “deferred recognition” approach whereby the full cost of the benefit promises are recognized in the statement of operations over time, but without distortions caused by significant changes in estimates in any one period.

This approach seems most consistent with the rationale for recording fair value changes on derivatives and other financial instruments carried at fair value in remeasurement gains and losses. In PS 1201, the volatility caused by these changes in assumptions is excluded from the statement of operations until the gain or loss is actually crystallized by realization. Applying this rationale to pension or other benefit obligations, actuarial gains and losses should be recognized in the statement of operations over the expected average settlement period, which is when any plan assets held in the plan are realized (to pay for obligations) and the cash obligation settled. We believe that amortization over the expected average settlement period would be one option for the Board to consider, consistent with the concept of realization of gains. However, alternatives that shorten the amortization period also have merit, such as amortization over EARSL or a fixed period, for the reasons set out in the Invitation to Comment.

The ITC notes that some consider this period might be too long and hide the effects of investment risk-taking and the risks related to the benefits promised. We believe that if actuarial gains and losses are recognized in remeasurement gains and losses until amortized to the statement of operations, coupled with clear disclosures on investment risks and actuarial assumptions, users of the financial statements would be able to understand how changes in assumptions can and have affected the pension obligations over time.

12. On what basis should plan assets be valued?

We believe market value is an appropriate basis for valuing plan assets, as it represents the best estimate of the value of the assets in the plan that can be used to meet benefit obligations as at the statement of financial position date. This measurement basis provides the most accountability regarding investment management of the pension or other benefits plan as it reflects the impact of investment decisions made in the period (buy, sell or hold) and is more readily available than a market related value as it is consistent with the basis of measurement used by the plan itself in its separate financial statements under Part IV of the *CPA Canada Handbook – Accounting*. We do not see a compelling reason why the Canadian public sector should measure plan assets on a different basis than Canadian entities in the private sector (under



Mr. Michael Puskaric, CPA, CMA
Public Sector Accounting Board
March 3, 2017

Part I, Part II or Part III of Canadian GAAP) or on a different basis than public sector entities globally that use International Public Sector Accounting Standards (IPSAS).

We believe that the approach to changes in the estimate of fair value of plan assets is best addressed in the consistent manner as changes in estimates of the accrued benefit obligation – see our response to Question 11 above.

Current accounting practice

- 13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.**

Question not applicable.

- 14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.**

Question not applicable.

Project issues not identified

- 15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the “Background to the project” section (page ii) that PSAB should consider in this project?**

Paragraph .017 of the Invitation to Comment notes that changes that are recognized when they occur (such as current and past service costs, interest cost on benefit obligations, gains and losses on plan curtailments and settlement) are outside the scope of the ITC. However, any changes made to the deferral provisions could have consequential impacts on these areas, such as how interest cost is measured (see Question 3 above), how a valuation allowance or past service costs are calculated, acceleration of recognition of previously unrecognized actuarial gains or losses and so on. When finalizing any decisions regarding the deferral provisions we believe that the effects on these areas should be considered to determine if further changes in these aspects is warranted.

We also see many questions arise in practice on the application of the limit on the carrying amount of an accrued benefit asset (the valuation allowance). We believe there is a lack of clarity regarding whether minimum contributions may be required “regardless of any surplus” and whether a sponsor will be able to access an accounting surplus when the funding surplus is much smaller, or there is a funding liability. We observe that other GAAPs include additional interpretation, such as IFRIC 14, *The Limit on a Defined Benefit Asset, minimum Funding Requirements and their Interaction*, but PSAS currently contains no additional interpretation. We believe it would be beneficial for the Task Force to consider whether PSAB should provide additional guidance in this area.



Mr. Michael Puskaric, CPA, CMA
Public Sector Accounting Board
March 3, 2017

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Question not applicable.

We would be pleased to respond to any questions you might have. Questions can be addressed to Michael Walke (michael.walke@pwc.com or 416-815-5011) or Lucy Durocher (lucy.durocher@pwc.com or 416-869-2311).

Yours very truly,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Professional Accountants

Montréal, le 3 mars 2017

Monsieur Michael Puskaric, MBA, CPA, CMA
Directeur, Comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

Monsieur,

Vous trouverez ci-joint les commentaires conjoints du Groupe de travail technique Secteur public – Comptabilité dans le secteur public et du Groupe de travail sur les régimes de retraite de l'Ordre des comptables professionnels agréés du Québec concernant l'appel à commentaires intitulé « *Avantages sociaux : dispositions relatives au report énoncées dans les chapitres SP 3250 et SP 3255* ».

Nous vous serions reconnaissants de nous faire parvenir une copie de la traduction anglaise de nos commentaires.

Veuillez prendre note que ni l'Ordre des comptables professionnels agréés du Québec, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à leur utilisation et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires, comme décrit dans le déni de responsabilité joint à la présente.

Veuillez agréer, Monsieur Puskaric, mes salutations distinguées.

Annie Smargiassi, CPA auditrice, CA
Représentante des Groupes de travail technique Secteur public – Comptabilité dans le secteur public et Régimes de retraite

p. j. Déni de responsabilité et commentaires

DÉNI DE RESPONSABILITÉ

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Les commentaires fournis ne doivent pas être utilisés comme substitut à des missions confiées à des professionnels spécialisés. Il est important de noter que les lois, les normes et les règles sur lesquelles sont émis les commentaires peuvent changer en tout temps et que, dans certains cas, les commentaires écrits peuvent être sujets à controverse.

Ni l'Ordre, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à l'utilisation de ces commentaires et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires. Les commentaires donnés ne lient pas, par ailleurs, les membres des Groupes de travail de l'Ordre ou, de façon plus particulière, le Bureau du syndic de l'Ordre.

La personne qui se réfère ou utilise ces commentaires assume l'entière responsabilité de sa démarche ainsi que tous les risques liés à l'utilisation de ceux-ci. Elle consent à exonérer l'Ordre à l'égard de toute demande en dommages-intérêts qui pourrait être intentée par suite de toute décision qu'elle aurait pu prendre en fonction de ces commentaires. Elle reconnaît également avoir accepté de ne pas faire état de ces commentaires reçus via le Groupe de travail dans les avis exprimés ou les positions prises.

MANDAT DES GROUPES DE TRAVAIL

Les Groupes de travail de l'Ordre des comptables professionnels agréés du Québec ont comme mandat notamment de recueillir et de canaliser le point de vue des praticiens exerçant en cabinet et de membres œuvrant dans les affaires, dans les services gouvernementaux, dans l'industrie et dans l'enseignement ainsi que le point de vue d'autres personnes concernées œuvrant dans des domaines d'expertise connexes.

Pour chaque exposé-sondage ou autre document étudié, les membres mettent leurs analyses en commun. Les commentaires ci-dessous reflètent les points de vue exprimés et, sauf indication contraire, ces commentaires ont fait l'objet d'un consensus parmi les membres du Groupe de travail ayant participé à cette analyse.

Les commentaires formulés ne font l'objet d'aucune sanction de l'Ordre. Ils n'engagent pas la responsabilité de celui-ci.

COMMENTAIRES GÉNÉRAUX

Les membres ont indiqué qu'il est difficile de commenter un projet lorsque celui-ci est morcelé en plusieurs parties et lorsque d'autres projets non finalisés risquent d'ajouter des préoccupations additionnelles. Ils ont donné l'exemple du projet sur la présentation des ÉF et celui sur le cadre conceptuel; dans ce contexte, il leur est difficile de proposer, dans le cadre de l'appel à commentaires sur les chapitres SP 3250 et 3255, des avenues qui sont cohérentes avec les dispositions de ces projets en cours. Ils sont d'avis qu'il est difficile de répondre à un sujet aussi pointu que celui-ci sans avoir de vue d'ensemble plus globale. Ils recommandent au CCSP de finaliser ces projets au plus tôt.

RÉPONSES AUX QUESTIONS SPÉCIFIQUES DU CCSP

Nécessité d'examiner les dispositions relatives au report

1. Êtes-vous d'accord qu'il est nécessaire que le CCSP examine si les dispositions relatives au report énoncées dans les normes sont appropriées?

Les membres ont indiqué être en accord avec la nécessité d'examiner les dispositions relatives au report mais ils ont manifesté le besoin de connaître les dispositions du cadre conceptuel qui risquent de changer, afin de mieux apprécier l'arrimage entre ces dispositions et celles envisagées quant au traitement des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime.

Composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

2. a) Parmi les composantes des variations de la valeur de l'obligation au titre des prestations constituées présentées au tableau 2 et aux paragraphes .015 à .056, certaines devraient-elles être prises en considération séparément aux fins de l'établissement de la méthode de constatation des variations de la valeur de l'obligation au titre des prestations constituées dans l'état des résultats et dans l'état de la situation financière, et si oui, lesquelles?

Les participants ont indiqué qu'il est risqué de séparer des composantes et de les traiter distinctement. Puisque les hypothèses doivent être cohérentes entre elles, ils sont d'avis que la façon de comptabiliser leur variation devrait également être cohérente avec elles. Selon eux, il serait très difficile de séparer les composantes de façon précise et le fait de les séparer et de les traiter distinctement ajouterait un risque d'interprétation et de manipulation des résultats. Pour l'évaluation des actifs d'un régime, les membres ont indiqué que le rendement utilisé n'est pas lié aux autres hypothèses, mais ils suggèrent de ne pas distinguer cette hypothèse des autres pour conserver une certaine simplicité dans l'évaluation.

Certains membres ont donné comme exemple de manipulation possible l'utilisation d'hypothèses agressives, dans un premier temps, qui pourraient donner lieu à des gains futurs plus importants résultant d'ajustements liés à l'expérience.

Selon les membres consultés, il serait plus adéquat de ne pas séparer les composantes aux fins d'évaluation, quitte à donner des détails sur ces composantes et leurs effets dans les notes aux états financiers.

b) Y a-t-il d'autres composantes qui devraient être prises en considération séparément?

Selon les participants, on ne devrait pas séparer les composantes.

3. Laquelle des façons de ventiler la composante « rendement des placements » des variations de la valeur des actifs du régime présentées aux paragraphes .057 à .065 est la plus appropriée aux fins de l'établissement de la méthode de constatation des variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

Certains membres ne sont pas d'accord avec l'affirmation du paragraphe 65 de l'appel à commentaires à savoir que la ventilation du rendement entre la portion prévue et imprévue est arbitraire et subjective. Ils jugent que cette ventilation est au contraire peu arbitraire, si l'on considère qu'elle est basée sur l'hypothèse du taux de rendement à long terme, lequel reflète la politique de placements définie pour le régime. Selon eux, le taux de rendement visé à long terme est plus prévisible que les décisions futures d'achat / vente d'actifs et de réalisation des gains et pertes.

Certains membres ont indiqué que la façon de ventiler les composantes du rendement des placements selon la méthode des « gains et pertes réalisés et non réalisés » est davantage arbitraire et peut être sujette à des manipulations plus facilement, si l'on considère que des décisions touchant la gestion des actifs peuvent être prises aux fins d'influer sur les résultats de l'exercice en cours. De plus, comme les sommes résultant des gains et pertes réalisés et non réalisés ne sont pas disponibles immédiatement, même lorsqu'elles sont « réalisées », ces notions de « réalisés » et « non réalisés » sont moins pertinentes selon eux. D'autres considèrent qu'une ventilation basée sur les gains/pertes non réalisés/réalisés est davantage basée sur des faits en fonction des décisions éclairées de la direction contrairement à des prévisions qui sont, par définition, plus arbitraires.

Par ailleurs, ils notent que l'hypothèse du taux de rendement est relativement homogène entre les actuares et fait l'objet d'un certain contrôle par des organismes de réglementation du secteur (nommons Retraite Québec, pour le Québec).

4. Y a-t-il d'autres façons de ventiler la composante «rendement des placements» des variations de la valeur des actifs du régime qui devraient être prises en considération aux fins de l'établissement de la méthode de constatation des

variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

Non, selon les membres consultés, il n'y aurait pas d'autres façons de ventiler la composante « rendement des placements » à considérer. Pour certains, cet aspect devrait être analysé dans une autre étape du projet, car il est lié à la détermination du taux d'actualisation.

5. Y a-t-il des aspects des composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime qui devraient être pris en considération aux fins de l'établissement de la méthode de constatation de ces variations dans l'état des résultats et dans l'état de la situation financière et qui ne sont pas mentionnés aux paragraphes .018 à .065?

Non, il n'y a pas d'autres aspects, méthodes ou questions qui devraient être mentionnés.

Autres méthodes et questions non relevées

6. Y a-t-il des questions importantes à considérer pour déterminer la méthode de constatation de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .070 à .091?

Toute la question des obligations implicites (par opposition à l'obligation actuelle citée au paragraphe .077) doit être considérée dans l'analyse. Il faudrait, selon certains, clarifier les fondements conceptuels pour parvenir à un terrain d'entente.

7. Y a-t-il des méthodes possibles de constatation des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .092 à .109 et .115 à .120?

Non, pour les membres consultés, il n'y a pas d'autres méthodes ou questions à mentionner.

8. Y a-t-il des périodes d'amortissement ou bases d'amortissement possibles aux fins de l'application de la méthode de la constatation reportée qui ne sont pas mentionnées aux paragraphes .110 à .114?

Du point de vue de certains membres, une méthode basée sur les besoins de décaissements aux fins des cotisations d'équilibre pourrait être envisagée. Ces décaissements sont prévus par les actuaires aux fins de financement des régimes et établis selon des lois particulières, par exemple la *Loi sur les régimes complémentaires de retraite* du Québec. Cette méthode aurait l'avantage, notamment pour les gouvernements et les administrations municipales qui disposent d'un pouvoir de taxation, de mieux arrimer la comptabilisation des charges de retraite aux besoins de financement et conséquemment, à la taxation des citoyens.

Ces membres ont mentionné que, selon les règles actuelles, des régimes de retraite se retrouvent parfois à devoir comptabiliser un actif au titre des prestations constituées à l'état de la situation financière à l'égard d'un régime alors qu'il y avait présence d'un déficit du point de vue financement. Ceci est très difficile à comprendre pour les citoyens.

9. Y a-t-il des méthodes possibles d'évaluation des actifs du régime qui ne sont pas mentionnées aux paragraphes .121 à .128?

Non, les membres n'ont pas identifié d'autres méthodes possibles d'évaluation des actifs du régime digne de mention dans l'analyse. Ils ont toutefois noté la méthode du coût d'acquisition, mais ils ont indiqué qu'elle n'est pas souhaitable dans les circonstances.

10. Y a-t-il des arguments importants relatifs à l'une ou l'autre des méthodes possibles de constatation dans l'état des résultats (paragraphes .092 à .109) ou dans l'état de la situation financière (paragraphes .115 à .120) ainsi que des méthodes possibles d'évaluation des actifs du régime (paragraphes .121 à .128) dont les paragraphes mentionnés ne font pas état?

Les membres sont très unanimement et fortement en désaccord avec la méthode qui résulte en « aucune constatation dans l'excédent ou le déficit de l'exercice ». Pour eux, ceci serait contraire à une bonne reddition de compte de la performance des gouvernements et organismes publics. Certains sont d'avis que cette méthode

donnerait lieu à un écart important avec les normes internationales d'information financière (IFRS) et les autres référentiels comptables.

De plus, les représentants du secteur municipal indiquent comme motif de désaccord, que certaines variations ne seront jamais renversées comme celles découlant de l'amélioration de la mortalité. Pour dégager les liquidités nécessaires au versement des cotisations d'équilibre en lien avec ces variations qui ne seraient jamais constatées, une municipalité serait obligée de taxer en surplus, en prévoyant dans ses budgets des revenus excédant les charges, ce qui serait difficilement justifiable ou compréhensible pour les contribuables.

Selon les membres, l'analyse des états financiers des gouvernements passe d'abord et surtout par l'analyse des résultats réels en comparaison avec les résultats prévus. Ainsi, la méthode expliquée aux paragraphes .099 à .104 n'est pas souhaitable dans le secteur gouvernemental.

Relativement à la méthode de constatation immédiate, qui s'avérerait une source de fluctuations significatives des résultats, les membres ont également des préoccupations quant à son application dans un contexte gouvernemental.

La pierre angulaire de la gestion budgétaire et de la reddition de comptes des gouvernements est l'état des résultats annuels. Le régime fiscal des gouvernements vise à imposer des impôts et des taxes en fonction des dépenses annuelles à financer. De plus, les gouvernements doivent répondre à des exigences d'équilibre budgétaire, exigé dans des lois et règlements, axés sur les résultats. Ceci exige la production d'information compréhensible pour les utilisateurs des états financiers, notamment les citoyens, pour qu'ils puissent juger de la performance des gouvernements.

Selon eux la seule méthode acceptable serait une méthode de report combiné à un éventuel recyclage aux résultats.

Traitement comptable de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

11. Comment chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime devrait-elle être constatée dans l'état des résultats et dans l'état de la situation financière?

État de la situation financière

Les opinions sont partagées à ce sujet.

Pour la majorité des membres la présentation du passif net ou de l'actif net à l'état de la situation financière permettrait de refléter la vraie position des régimes et d'être cohérent avec les politiques de gestion des régimes. Pour eux, une méthode basée sur le report ne permet pas la meilleure évaluation de cette situation.

Pour les autres, une méthode de report (présentation d'un passif ou d'un actif net ajusté des reports non constatés) combinée à des informations complètes dans les notes aux états financiers serait la meilleure façon d'éviter des fluctuations importantes à la position nette. Pour eux, les utilisateurs des états financiers, dont les agences de notation tiennent déjà compte, dans leurs évaluations, des informations apparaissant dans les notes aux états financiers, par exemple les obligations contractuelles et les obligations au titre des avantages sociaux futurs. Les informations à fournir pourraient comprendre, sans s'y limiter, le détail des composantes, leur mode de comptabilisation et d'amortissement ainsi que des informations prospectives (ex. échéancier de l'amortissement des gains et pertes actuariels).

État des résultats

Tel que déjà mentionné, les membres sont unanimement et fortement en désaccord avec la méthode qui résulte en « aucune constatation dans l'excédent ou le déficit de l'exercice ».

Une majorité de membres est d'accord avec une comptabilisation aux résultats mais pas nécessairement selon la constatation immédiate. Une des raisons invoquées est la reddition de comptes, tel que mentionné précédemment, axée sur les résultats. Certains suggèrent, par exemple, un report dans l'état des gains et pertes de réévaluation ou en crédit reporté, en attendant la constatation aux résultats. Certains évoquent que le report pourrait se faire sur une période maximale, par exemple 5 ans pour tous les types de variations alors que d'autres proposent que la période de recyclage puisse être différente pour les variations liées aux obligations versus celles liées aux actifs, en se limitant à 5 ans dans ce dernier cas.

Pour ceux qui appuient une norme basée sur la constatation immédiate, celle-ci serait plus facile à gérer et mettre en place et pourrait aussi, par exemple, permettre une présentation distincte aux résultats, afin de bien informer le lecteur.

Certains participants ont soulevé le fait que les normes actuelles ne prévoyaient aucune disposition permettant d'incorporer une partie du coût pour la période d'un régime d'avantages sociaux futurs dans le coût d'une immobilisation corporelle ou d'un autre actif. Ils suggèrent que de telles dispositions (comparables à celles prévues aux paragraphes 3462.023 ou IAS 19.121) soient envisagées dans l'élaboration de la nouvelle norme.

12. Quelle devrait être la base d'évaluation des actifs du régime?

Une majorité de membres est d'accord avec l'évaluation des actifs à la juste valeur mais les positions sont partagées à savoir si elle devrait correspondre à la valeur de marché comme telle ou une valeur de marché redressée (lissage).

Pour certains, le lissage est préférable car il réduirait les écarts de rendement, lesquels pourraient être amortis sur une période maximale établie.

Actuellement, la norme donne le choix entre la valeur de marché ou une valeur de marché redressée (lissage). Afin de favoriser une meilleure comparaison entre les promoteurs de régimes de retraite, certains sont d'avis que la future norme devrait prendre position sur une seule méthode et, si c'est le lissage qui est retenu, une seule période de lissage devrait être permise (par exemple, 3 ans ou 5 ans).

Méthodes comptables actuelles

13. Évaluez-vous les actifs du régime à la valeur de marché ou à une valeur liée au marché? Si vous avez recours à une valeur liée au marché, expliquez comment elle est établie.

Les membres confirment que la méthode liée au marché est celle la plus utilisée. Le Ministère des Affaires municipales et de l'Occupation du territoire du Québec a d'ailleurs compilé des statistiques concernant les organismes municipaux québécois qui confirment ce constat : sur un échantillon de 35 organismes municipaux (soit près de la moitié de ceux qui sont promoteurs de régimes de retraite), 8 ne font pas de lissage mais 27 en font, sur des périodes qui varient de 3 ans à 5 ans.

14. Quelle méthode comptable appliquez-vous pour la constatation des gains et pertes actuariels (constatation reportée ou immédiate) liés aux avantages postérieurs à l'emploi et aux congés rémunérés qui ne s'acquièrent pas ou ne s'accumulent pas? Expliquez pourquoi cette méthode a été choisie.

Les membres constatent que, bien que les méthodes utilisées varient, la majorité des entités utilisent une méthode de report pour la constatation des gains et pertes actuariels à l'égard de ces régimes.

L'amortissement utilisé est généralement l'espérance de vie des prestataires ou la durée moyenne estimative du reste de la carrière active du groupe de salariés concerné, bien que des périodes d'amortissement fixes (ex. : 5 ans) soient également observées en pratique.

Questions non relevées quant au projet

15. Y a-t-il des questions particulières liées aux chapitres SP 3250 et SP 3255 qui ne sont pas relevées dans la section «Aperçu général du projet» (page ii) et que le CCSP devrait examiner dans le cadre du projet?

Oui, les membres ont mentionné que la détermination de la provision pour moins-value (PMV) n'a pas été couverte dans l'analyse et qu'elle devrait l'être. Bien que toute variation de la PMV soit constatée entièrement en charge immédiatement et que, de ce fait, la PMV ne soit donc pas abordée dans le projet de révision des normes portant sur les reports, il y a lieu de se questionner s'il est pertinent que cela reste ainsi. Il serait notamment pertinent de se questionner, de l'avis de certains membres, à savoir si les variations de la PMV ne pourraient pas faire l'objet, elles aussi, d'un report et d'un recyclage aux résultats. Actuellement, un gain ou perte actuariel engendrant une variation de la PMV est recyclé sur la DMERCA alors que la variation elle-même de la PMV est constatée immédiatement, ce qui constitue un mauvais synchronisme. Les IFRS prévoient une méthode de constatation qui assure un meilleur synchronisme selon eux. Les membres sont d'avis que le projet actuellement entrepris par le CCSP représente la meilleure opportunité d'analyser et de remettre en question le traitement actuel de la variation de la PMV dans le cadre du projet de révision des normes portant sur les reports, jugeant inopportun que cette question soit exclue et analysée distinctement dans un projet ultérieur. Les membres ont également mentionné le

traitement des régimes à coûts partagés autres que des régimes à risques partagés, des régimes interemployeurs et des régimes à employeurs multiples, pour lesquels aucune proposition n'a été faite.

Ils ont aussi proposé de traiter des situations de compression de régime, en même temps que les propositions actuelles, car elles ont un impact sur le calcul des gains et pertes constatés et le recyclage aux résultats.

Participation à d'éventuels projets pilotes

16. Voudriez-vous participer à d'éventuels projets pilotes, qui pourraient comprendre l'utilisation de données réelles sur des régimes d'avantages pour déterminer les conséquences financières de diverses méthodes?

Aucun membre ne s'est manifesté à ce sujet mais ils souhaitent être informés, le cas échéant, de la mise sur pied de ces projets pilotes.

Un membre suggère de transmettre des invitations à ce sujet aux ordres professionnels provinciaux afin de faciliter la participation des membres à ces éventuels projets pilotes.

March 3, 2017

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Via email: ed.psector@cpacanada.ca

Dear Sir:

Re: Employment Benefits – Deferral Provisions in Sections PS 3250 and PS 3255

We appreciate the opportunity to respond to the above Invitation to Comment.

We feel that one size does not fit all in regards to pension and post-employment accounting when considered across different sectors. We urge PSAB to review PS 3250 and PS 3255 taking into consideration the circumstances of the entities reporting under the standards, and allow for either flexibility or a continuation of the current approach where that is appropriate.

Although changes to the discount rate will be addressed in a future stage of the project, we caution that the views outlined here on deferral may change depending on the proposals outlined in the future for the discount rate. Generally, we do not favour a discount rate measure which could be volatile from year to year. We also do not favour a discount rate under PSAB which is based on bonds, as we view this as an attempt to place a "market value" on the obligations, and such a value is rarely appropriate for entities reporting under PSAB as such rates would not be relevant in a situation where the obligation needs to be settled.

With regards to deferral, we urge PSAB to continue to permit deferral of gains and losses. Volatility in the bottom line is of concern to most organizations reporting under PSAB, as it can create an artificial position on which action needs to be taken, only to see the position potentially reverse in a subsequent year due to further volatility. This holds for both surplus and deficit positions. We believe that flexibility should be permitted in the deferral provisions, and the period of amortization should be reviewed and be appropriate to the reporting entity.

The views expressed here are those of the undersigned and do not necessarily represent the views of our employer.



Catherine Robertson, FFA, FCIA



Nick Gubbay, FFA, FCIA



Philip Churchill, FCIA, FSA

Formulaire de réponse
Pour être pris en considération,
les commentaires doivent être reçus au plus tard
le 3 mars 2017.

Avantages sociaux : dispositions relatives au report énoncées dans les chapitres SP 3250 et SP 3255

Appel à commentaires

Le CCSP invite les intéressés à formuler des commentaires sur tous les aspects de l'appel à commentaires.

Ce formulaire ne vise pas à restreindre votre réponse. Chaque boîte de texte acceptera l'intégralité de vos commentaires.

Vous pouvez sauvegarder le formulaire et l'envoyer, pour examen, à d'autres personnes de votre organisation avant de le soumettre.

Nom : France Alain, FCPA auditrice, FCA, directrice principale des services-conseils

Organisation : Vérificateur général du Québec

Courriel : france.alain@vgq.qc.ca

Commentaires généraux :

Il serait d'intérêt que pour la prochaine consultation concernant les avantages sociaux, le modèle de présentation de l'information financière soit déterminé afin de faciliter les prises de décisions concernant ce sujet.

Nécessité d'examiner les dispositions relatives au report

1. Êtes-vous d'accord qu'il est nécessaire que le CCSP examine si les dispositions relatives au report énoncées dans les normes sont appropriées?

Oui, compte tenu que plusieurs normalisateurs ont supprimé les dispositions relatives au report dans les états financiers, il est d'intérêt d'examiner ce sujet.

Composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

- 2a. Parmi les composantes des variations de la valeur de l'obligation au titre des prestations constituées présentées au tableau 2 et aux paragraphes .015 à .056, certaines devraient-elles être prises en considération séparément aux fins de l'établissement de la méthode de constatation des variations de la valeur de l'obligation au titre des prestations constituées dans l'état des résultats et dans l'état de la situation financière, et si oui, lesquelles?

Nous sommes d'avis qu'il est difficile de séparer chacune des composantes des variations de la valeur de l'obligation. Il nous apparaît difficile notamment de départager les variations de la valeur de l'obligation résultant de l'expérience de ce

qui est réellement réalisé en gains ou pertes.

2b. Y a-t-il d'autres composantes qui devraient être prises en considération séparément?

Non. Nous n'avons pas été en mesure d'identifier des composantes qui devraient être prises séparément.

3. Laquelle des façons de ventiler la composante «rendement des placements» des variations de la valeur des actifs du régime présentées aux paragraphes .057 à .065 est la plus appropriée aux fins de l'établissement de la méthode de constatation des variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

Nous considérons que la méthode selon le rendement prévu et imprévu des placements est une méthode moins arbitraire que la méthode des gains et pertes réalisées et non réalisées qui pourrait amener les intervenants à prendre des décisions en fin d'exercice en fonction des fluctuations des marchés.

La perspective économique actuelle est basée sur la juste valeur. Nous sommes conscients qu'une certaine période de report pourrait être permise afin de ne pas créer trop de volatilité dans les résultats. Nous suggérons que la période de 5 ans correspondant à un cycle de marché habituel pourrait être raisonnable à titre de période de report.

4. Y a-t-il d'autres façons de ventiler la composante «rendement des placements» des variations de la valeur des actifs du régime qui devraient être prises en considération aux fins de l'établissement de la méthode de constatation des variations des actifs du régime dans l'état des résultats et dans l'état de la situation financière?

Nous n'avons pas identifié d'autres façons de ventiler la composante rendement des placements.

5. Y a-t-il des aspects des composantes des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime qui devraient être pris en considération aux fins de l'établissement de la méthode de constatation de ces variations dans l'état des résultats et dans l'état de la situation financière et qui ne sont pas mentionnés aux paragraphes .018 à .065?

Non

Autres méthodes et questions non relevées

6. Y a-t-il des questions importantes à considérer pour déterminer la méthode de constatation de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .070 à .091?

Oui. Il pourrait y avoir aussi la provision pour moins-value des actifs.

7. Y a-t-il des méthodes possibles de constatation des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime dans l'état des résultats et dans l'état de la situation financière qui ne sont pas mentionnées aux paragraphes .092 à .109 et .115 à .120?

Non

8. Y a-t-il des périodes d'amortissement ou bases d'amortissement possibles aux fins de l'application de la méthode de la constatation reportée qui ne sont pas mentionnées aux paragraphes .110 à .114?

Oui. Nous pourrions avoir une autre méthode qui serait le moindre des 3 méthodes proposées dans le document.

9. Y a-t-il des méthodes possibles d'évaluation des actifs du régime qui ne sont pas mentionnées aux paragraphes .121 à .128?

Non

10. Y a-t-il des arguments importants relatifs à l'une ou l'autre des méthodes possibles de constatation dans l'état des résultats (paragraphes .092 à .109) ou dans l'état de la situation financière (paragraphes .115 à .120) ainsi que des méthodes possibles d'évaluation des actifs du régime (paragraphes .121 à .128) dont les paragraphes mentionnés ne font pas état?

Non. Il est d'intérêt de trouver une méthode qui permettrait de reporter sur une période assez courte (ex.: sur un cycle économique maximum de 5 ans) et de recycler aux résultats. (voir la réponse à la question 12)

Traitement comptable de chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime

11. Comment chaque composante des variations de la valeur de l'obligation au titre des prestations constituées et des actifs du régime devrait-elle être constatée dans l'état des résultats et dans l'état de la situation financière?

Nous sommes en faveur que les changements dans les hypothèses actuarielles soient amortis sur une période maximale de 5 ans. Quand aux autres éléments, ils demeureraient à notre avis constatés directement dans les résultats.

12. Quelle devrait être la base d'évaluation des actifs du régime?

Par cohérence avec les réponses précédentes, nous suggérons une valeur liée au marché établie sur une période maximale de 5 ans, sans autre lissage par la suite.

Méthodes comptables actuelles

13. Évaluez-vous les actifs du régime à la valeur de marché ou à une valeur liée au marché? Si vous avez recours à une valeur liée au marché, expliquez comment elle est établie.

Actuellement, les actifs relativement aux régimes de retraite du gouvernement du Québec sont évalués sur une valeur liée au marché de 5 ans. (Les écarts entre cette valeur et les actifs à la JVM sont amortis sur la DMERCA.)

14. Quelle méthode comptable appliquez-vous pour la constatation des gains et pertes actuariels (constatation reportée ou immédiate) liés aux avantages postérieurs à l'emploi et aux congés rémunérés qui ne s'acquièrent pas ou ne s'accumulent pas? Expliquez pourquoi cette méthode a été choisie.

Non disponible

Questions non relevées quant au projet

15. Y a-t-il des questions particulières liées aux chapitres SP 3250 et SP 3255 qui ne sont pas relevées dans la section «Aperçu général du projet» (page ii) et que le CCSP devrait examiner dans le cadre du projet?

1- Nous aurions aimé que le CCSP se positionne par rapport au taux d'actualisation utilisé par l'employeur dans le cas où les régimes ne sont pas pleinement capitalisés. Cette problématique origine du fait que l'on pourrait prendre un taux de rendement basé sur des actifs inexistantes.
2- La norme devrait traiter de la notion de capitalisation et répondre à la préoccupation suivante: Est-ce que des régimes qui ne possèdent pas l'ensemble des sommes destinées aux régimes parce que l'employeur conserve une liberté d'action quant aux sommes qu'il détient peut être considéré comme un régime capitalisé?
3- La norme devrait traiter de la question des provisions des plus ou moins-values des actifs.

- 4- La norme devrait traiter d'une période de report pour des régimes fermés: voir notre suggestion à la question 8.
- 5- La norme devrait traiter des directives concernant les régimes à coûts partagés ou hybrides. Nous comprenons que cela sera traité dans une phase subséquente du projet.
- 6- La norme devrait présenter des informations et des explications additionnelles dans les notes à l'égard de la nature des gains et pertes actuariels.
- 7- La norme devrait préciser le moment de constatation de transfert d'employés entre différents régimes de retraite (transferts interrégimes) notamment lors de promotion d'employés professionnels qui deviennent cadres.

Participation à d'éventuels projets pilotes

16. Voudriez-vous participer à d'éventuels projets pilotes, qui pourraient comprendre l'utilisation de données réelles sur des régimes d'avantages pour déterminer les conséquences financières de diverses méthodes?

Non

Cliquez ici pour soumettre



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March 7, 2017

By email: ed.accounting@cpacanada.ca

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2
Canada

Subject: Employee Benefits - Deferral Provisions in Sections PS 3250 and PS 3255

Dear Mr. Puskaric:

We thank you for the opportunity to provide comments on the above noted Invitation to Comment regarding the deferral provisions in Sections PS 3250 – Retirement Benefits and PS 3255 – Post-employment benefits, compensated absences and termination benefits.

Our response was developed with input from a number of practitioners from across the country that have a deep knowledge of public sector entities and organizations ranging from municipalities, provincial and federal governments as well as public sector Not-for-Profit Organizations (NPOs).

Please find attached our comments to the specific questions raised in the invitation to comment. If you have any questions please contact Kerry Danyluk (kdanyluk@deloitte.ca) at 416-775-7183 or Clair Grindley (clgrindley@deloitte.ca) at 416-601-6034.

Sincerely,

A handwritten signature in black ink that reads "Gloria Lemire".

Gloria Lemire, FCPA, FCA
Deputy National Professional Practice Director
Private Companies, Public Sector and Not-for-Profit Organizations
Deloitte LLP

Public Sector Accounting Board – Invitation to Comment - Employee Benefits: Deferral Provisions in Sections PS 3250 and PS 3255

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

We agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate. Other standard setters have been moving away from this approach for a variety of reasons. For example, the complexity of understanding the pension expense when it includes the amortization of amounts deferred in prior periods. By deferring, there is potential for a net pension asset to be reported in the financial statements even when the plan obligations exceed its assets. We therefore believe that PSAB should consider the appropriateness of the current deferral provisions in Sections PS 3250 and PS 3255.

2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

While there are a number of drivers that affect the value in the accrued benefit obligation, we do not believe that any of these components should be considered separately in determining the appropriate accounting. Accounting for the components separately would appear to be in conflict with some of the reasons that have led to a reconsideration of the deferral provisions. For example, one of the reasons for reconsideration of the deferral provisions is related to increased transparency and enhanced understandability of the amounts recorded in the financial statements. If only certain components remain subject to the deferral provisions then this may increase, rather than reduce, complexity related to the accounting treatment of the accrued benefit obligation.

As such, in our view it would be preferable to either retain the deferral provisions in their entirety or eliminate them in full as opposed to adopting a hybrid approach.

2b. Are there any additional components that should be separately identified and considered?

We do not believe there are any additional components that should be separately identified and considered.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

In our view, the expected and unexpected return is more appropriate for determining the accounting for the changes in the value of plan assets in the financial statements. This view would be consistent with other accounting frameworks and is a more practical approach to implement as the information required for this approach is readily available.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

We do not have any other views for consideration on how to break down the investment return component of the changes in the value of plan assets.

- 5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?**

We have not identified any additional aspects of the components of the changes in value of the accrued benefit obligation and plan assets that should be considered for determining the accounting treatment.

- 6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?**

We believe paragraphs .070 - .091 provide a comprehensive overview of the significant considerations for determining the appropriate accounting treatment.

- 7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?**

We do not believe there are any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets that have not been identified in paragraphs .092 -.109 and .115 -.120.

- 8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?**

In our view, there are no alternative amortization periods and/or bases that have not been identified in the paragraphs .110-.114.

- 9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?**

We do not believe there are any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128.

- 10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?**

In our view, there are no significant arguments that have not been identified in paragraphs .115-.120 and .121-.128.

- 11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?**

We believe that the appropriate accounting treatment depends in part on the outcome of the work currently being undertaken by PSAB with respect to the review of its conceptual framework as outlined in paragraph 69 of the ITC. Conceptually speaking the recognition of each component of the changes in both statements should be consistent with PSAB's financial reporting model and, as such, it is not possible to make a definitive recommendation in this respect given this financial reporting model is currently under review. This said, our views pending completion of such review, are included in the paragraphs which follow.

With respect to the recognition of changes in value in the statement of financial position, as is stated in paragraph 75 of the ITC, the statement of financial position should report liabilities and assets. Full recognition of the accrued benefit obligation net of any plan assets would result in alignment with PSAB's existing financial reporting model. Further, and as is discussed in paragraph 120 of the ITC, the presentation of a net defined benefit liability/asset, without an adjustment for unamortized changes provides a more understandable and faithful representation of the plan at the financial statement date. The deferral provisions in the current accounting requirements potentially risk presenting to the users of the financial statements a number that is misleading and/or confusing. For example, the presentation of an asset position which would revert to a liability position after if all unamortized components associated with the retirement plan were to be fully recognized.

Notwithstanding the above, while we believe there are benefits in eliminating the deferral provisions, we do recognize that the public sector operating environment brings with it some unique considerations and believe that further outreach and consideration of the financial implications of this alternative may be necessary before a fully informed view can be given. We note that question 16 of this ITC identifies this as a possible step to be taken with respect to this project.

For the recognition of changes in the value of the accrued benefit obligation and plan assets in the statement of operations, we note that three options are presented in paragraph 92 (we have not identified any additional alternatives at this time) each one with its advantages and disadvantages. We do not have a definitive view on the best alternative at this time but would have the most concerns around a position of immediate recognition in the annual surplus/deficit without further outreach and a robust assessment of the financial implications being undertaken. While this approach may be considered to be conceptually sound, it could result in significant volatility in the financial results which warrants further discussions as to whether or not this is the most appropriate accounting result for the public sector. We would also note that the introduction of a recycling approach (paragraph 92 (c)) may introduce unnecessary complexity at a time when PSAB is seeking to enhance transparency and improve understandability. As such, while additional information and analysis is necessary to form a view on this question, the merits of a recycling approach would appear to be questionable.

12. On what basis should plan assets be valued?

We believe that measuring plan assets at fair value faithfully represents the best estimate of the assets at the financial statement date. The concept of fair value would be familiar to many users of the financial statements and would enhance comparability between public sector entities given that it is consistent with how other financial assets that are managed on a fair value basis are valued in accordance with Section PS 3450 – Financial Instruments.

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

This question is not directly applicable to our organization. Based on our experience however, a common approach we have seen in practice is market-related value over a 5-year period.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated

absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

This question is not directly applicable to our organization.

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the “Background to the project” section (page ii) that PSAB should consider in this project?

We have identified the following areas, which are not specifically identified by PSAB in the “Background to the project” section, for consideration by PSAB:

- Additional guidance on the calculation of the asset ceiling (PS 3250 - .050-.059):
 - o PSAB should consider a review of the existing asset ceiling requirements and whether there is a need to expand the scope of the project to provide additional guidance on this calculation. If the concept of unamortized gains and losses is retained these considerations should also extend to whether any such changes should be offset against changes to the asset ceiling.
- Joint benefit plans:
 - o We believe it may be helpful for PSAB to consider how to enhance guidance on joint benefit plans. This could be achieved by introducing guidance which deals with 1) the definition of a joint benefit plan and 2) how all aspects of the requirements of PS 3250 should be applied to joint benefit plans.
- Cost of borrowing when used to determine the discount rate:
 - o When the basis for the discount rate is the cost of borrowing, there should be greater clarity as to how it should be determined. For example, should it be the current cost of borrowing in the market that may be accessible or the actual cost of borrowing of the entity?
- Disclosure:
 - o Consideration should be given to including sensitivity information on key assumptions and how the amounts recorded in the financial statements are impacted by key assumptions.
 - o Although not explicitly stated in the “Background to the Project” section we have assumed that the scope of the project will also encompass a review of the disclosures related to the accrued benefit obligation and plan assets. We believe it would be beneficial to give consideration as to how enhanced disclosures could help better convey to the users an understanding of all amounts associated with a retirement benefit plan. This should extend to understanding how any unrecognized amounts will impact the financial statements in future periods to the extent the deferral provisions are retained.

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

This question is not applicable to our organization.

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255
Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name: Janet Allan

Organization: KPMG LLP

E-mail: jlallan@kpmg.ca

General comments:

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes, we agree that PSAB needs to consider the deferral provisions in the standards. The other frameworks have evolved and the PSAS approach represents a significant difference from the other frameworks. We agree it is appropriate for PSAB to consider if they should evolve in a similar manner.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

The changes in the related assets and liabilities should be considered separately in determining the accounting for these changes. In addition, there may be some benefit of segregating the impact of the changes in discount rates from demographic and economic changes. We do not see a benefit to any further separation.

- 2b. Are there any additional components that should be separately identified and considered?

No.

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

We believe that the realized and unrealized gains methodology is more appropriate. The values are easier to determine as fair value of investments is easily obtainable and doesn't require estimate parameters to be determined. This treatment is consistent with the financial instruments standard in PSAS. Finally it's consistent with other frameworks.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

We do not necessarily believe there is a significant benefit to be gained by breaking down the plan asset gain and losses between the realized and unrealized amounts and treating them differently.

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

No.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

The components of the changes of liability and plan assets were well identified and the significant considerations were well documented. We have no further suggestions.

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

Paragraph .093(c) indicates that another statement is a possible alternative. We would suggest that the statement of remeasurement gains and losses should be considered as that "other statement". We do not see a benefit in adding another new statement to the financial statements.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

We have not identified any alternative amortization periods or bases. We would suggest that either amortization using EARL or immediate recognition are the only alternatives that should be considered.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

No.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

The arguments were well laid out in paragraphs .092 to .109. The comments in paragraphs .090 and .091 which indicated that practicality should be considered are also very valid and should be taken into consideration.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

We support immediate recognition. We believe that consideration should be given to including the change through the statement of remeasurement gains and losses. This treatment would be similar to the approach used in Part III of the CPA Canada Handbook, where remeasurement changes are recorded through the statement of changes in net assets.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

As a public accounting firm, we see both options applied by our clients, but the market-related value is by far the most common. In most cases the value is determined by the actuaries, with little input by the client.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

As a public accounting firm, we see both options applied by our clients, but the deferred method is by far the most common. We believe the option has been selected to avoid significant annual fluctuations through the statement of operations.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

We are not aware of any. We look forward to future discussions on the appropriate discount rates and, given pension reform, related to the accounting for other types of plans currently being implemented.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

N/A as a public accounting firm.

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Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255

Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name: Ann Marie Miller, Comptroller General

Organization: Government of Newfoundland and Labrador

E-mail: millera@gov.nl.ca

General comments:

The form did not include the ability to insert a response to question 12. As a result, please see the response to question 12 below:

Plan assets should be valued based on market value. Applying a market-related value approach would introduce a layer of amortizing adjustments on the value of plan assets in addition to the valuation adjustments due to experience and actuarial assumption changes. While an adjustment period of no greater than 5 years may be typical of a market cycle it does somewhat arbitrarily create the ability to smooth asset values. The lack of objectivity in selecting such an approach may result in over generalizing the cyclical nature of all invested assets.

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes, it is agreed that PSAB should reassess the deferral provisions in the standards. The concepts surrounding deferral versus immediate recognition on measuring the change in certain elements has already been raised via the efforts on financial instruments, foreign currency translation and more recently the conceptual framework. From a conceptual perspective, the basis upon which changes in assets and liabilities are recognized should be consistent within the accounting standards to the extent that the events that give rise to the changes in the assets and liabilities are also similar or consistent. That is not to say that there is support to move changes in employee benefit obligations to an approach that was adopted for financial instruments and foreign currency translation, but rather that there is a need to ensure that the foundation upon which we recognize changes in the value of these obligations is conceptually and theoretically sound based on the qualitative characteristics of financial statement reporting. Providing a basis of consistency for recognizing such changes in value across the accounting standard spectrum is in line with building such foundation. Final position on these provisions should be deferred until the conceptual framework efforts are sufficiently completed. This will allow for a greater understanding of the implications on financial reporting. In contrast, standards developed in advance of the progress on the conceptual framework, such as financial instruments and foreign currency translation, have experienced delays in implementation partially due to the departure from current accounting practice that these standards propose. Depending on the final direction of the conceptual framework these standards may once again need to be revisited.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

When accounting for changes in the accrued benefit obligation consideration should be given to the underlying nature or cause of the change when determining how best to account for that change. Adjustments that can be attributed to benefit plan experience occurring differently than what was previously estimated reflect to a degree events that have already occurred. Accounting for these changes may warrant a different accounting treatment as compared to assumption changes given it is a reflection of past events. While these experience adjustments may influence actuarial assumptions going forward, the change itself was not due to a change in assumption at the time the plan experience was estimated. Any subsequent change in the value of the obligation that stems from reassessing the actuarial assumption based on past experience would be considered an actuarial assumption change.

Changes in value attributed to actuarial assumption changes generally reflect a long-term view of future events. The ability to the organization to significantly influence a change in the value of the assumption is somewhat limited. For example, assumptions pertaining to inflation and mortality reflect long-term assumptions about general economic and demographic conditions of the economic and social environment that are not easily influenced by the organization.

- 2b. Are there any additional components that should be separately identified and considered?

No

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

Expected and unexpected return on investment is the current method used by the Government of Newfoundland and Labrador (GNL). This view continues to be supported to facilitate the net interest expense approach. Given the long-term nature of these obligations, a net interest expense approach is a more accurate reflection of the investment and financing intentions of the benefit plan. To the extent possible, plan assets and the return on those plan assets will be used to finance the benefit plan obligation.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

No

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

No

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

No

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

No

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

No

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

No

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

No

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

Changes in the value of the accrued benefit obligation and plan assets that can be attributed to experience adjustments may warrant more immediate recognition as compared to assumption changes given it is a reflection of past events. Experience adjustments reflect, to a degree, events that have already occurred. As previously noted, these experience adjustments may influence actuarial assumptions going forward, the change itself was not due to a change in assumption at the time the plan experience was estimated. Any subsequent change in the value of the obligation that stems from reassessing the actuarial assumption based on past experience would be considered an actuarial assumption change.

Adjustments in value of the obligation or asset attributed to actuarial assumption changes generally reflect a long-term view of future events. Given the inherent uncertainty associated with these assumptions and the long-term nature of the assumption and the obligation, these changes may warrant a more long-term approach toward recognition. Whether these valuation adjustments are recognition on the statement of operations, the statement of financial position or some other statement will depend on the approach adopted by the conceptual framework. To ensure consistency between the individual standards and the conceptual framework, final position on the presentation of these changes should be aligned with the efforts on the conceptual framework.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Plan assets are measured at market value.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

GNL's accounting policy for recognizing actuarial gains and losses is to defer and amortize actuarial gains and losses over the Expected Average Remaining Service Lifetime (EARSL). This method was chosen to reflect the long-term nature of post-employment benefits. Immediate recognition of actuarial gains and losses would lead to short-term volatility in the statement of operations and the statement of financial position which is not consistent with the long-term nature of the benefits provided. Amortizing over the EARSL minimizes the impacts of point-in-time measurements of long-term obligations consistent with the long-term nature of the benefits provided. .

An exception to the above is in relation to the actuarial gains and losses for workers compensation benefits. While these benefits are, potential long-term in nature, due to the immateriality of the obligation (particularly relative to other post-employment benefits) such gains and losses are recognized immediately.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

The definition of plan assets requires reconsideration or clarification for situations where the nature of a plan asset may also change the nature of the obligation. Plan assets currently exclude amounts held by government and not yet paid into the trust or other legal entity. While in general this provision would hold true as to not understate an organization's obligations. However, there are certain instances where an instrument is recognized as an asset of the trust or other entity managing the benefit plan, such as a pension plan for funding and regulatory purposes, that may also require consideration as to whether the entity issuing the instrument should also recognize the asset as a reduction in its benefit obligation while also recognizing the obligation to settle the financial instrument over time.

For example, an employer may issue a promissory note for its share of an unfunded pension liability relating to past service. The promissory note is held by and recognized as a plan asset held by the pension trustee, where the trustee is not the employer or is not the sole trustee as in joint-trust relationship. The promissory note is enforceable by legislation, as well as from a legal contractual perspective. In addition to recognizing the promissory note as a plan asset by the trustee for funding purposes, the trustee may also in certain circumstances be able to re-package/re-sell the promissory note for potential investors in the pension plan given it represents a guaranteed, consistent stream of cash flows from a relative low-risk creditor (i.e., government) over the term of the note. In such cases, it can be argued that the issuance of the promissory note has changed the nature of the obligation from an employee benefit obligation to a financial/contractual obligation as the trustee is an independent party to the employer-employee relationship. As trustee there is a fiduciary responsibility to the plan beneficiaries to ensure that the promissory note is paid over to the trust in accordance with the note terms and is not a mere employer tactic to delay cash flow to settle an existing obligation. In changing the nature of the obligation, the financial/contractual obligation would be recognized as a liability in its own right. PSAB may wish to consider whether such issues are best addressed in phase I or II of the project.

In addition, PSAB should also consider whether there is an ability to recognize plan assets (or alternatively a valuation allowance against the benefit obligation) for situations where post-employment benefits are being subsidized by active employees. For example, it is common in a health insurance benefit plan that is managed from a group perspective (i.e., includes both active employees and retirees participate within the same plan) to see plan experience where retirees avail of the "value" of the benefit at a greater rate than active members. Though retirees may access the value of the benefit more

than its active counterpart, all plan members pay an equal or comparable insurance premium amount. Therefore, to a degree, the insurance premium contributions of the active members are used to subsidize the cost of the plan accessed by the retirees. However, from a valuation of the benefit obligation at a point in time, the value of this ongoing active member subsidization is not considered in determining the net benefit obligation of the employer. In situations where it can be demonstrated that the plan terms between active and retirees remain relatively stable or consistent over time, an argument can be made that the value of this active member subsidy should be recognized as a reduction in the expected payout by the employer to settle the obligation. This approach would better align the accounting of the obligation with the manner in which the benefit plan is administered on a yearly basis. That is, as long as employer-employee insurance premium contributions are sufficient to meet the obligations of the plan as they come due, there is no further financial obligation of the employer. Should such contributions prove to be insufficient, any remaining unfunded obligation would be recorded as a liability of the plan sponsor.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Yes, please include the GNL on future field tests.

Click here to submit



March 15, 2017

357503

[E-mail: ed.psector@cpacanada.ca](mailto:ed.psector@cpacanada.ca)

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Michael Puskaric:

RE: PSAB Invitation to Comment: Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255

Thank you for the opportunity to provide feedback on the invitation to comment titled “Employment Benefits: Deferral provisions in Sections PS 3250 and PS 3255”. The views expressed in this letter reflect the views of the government of the Province of British Columbia, including central agencies, ministries and entities consolidated into the British Columbia Summary Financial Statements.

The need to review the current standards on retirement and other employment benefits is described as an exercise to align with guidance implemented by other private, public and international standard setters. There are significant differences between the public and private sector pension plans and between pension plans in Canada that need to be considered when contemplating an approach for Canadian government jurisdictions.

Concerns regarding the sequence of review

The approach to the review of the employment benefit standards causes concern because it intends to prescribe recognition before considering the measurement (discount rate) and before defining the scope (plan types). It is important to first consider the nature and context of the Canadian pension environment because of the broad continuum of obligations resulting from government participation in benefit and pension plans. Understanding these various plans will then provide the needed background to comprehensively discuss the discount methodology, a key factor in the calculation of the actuarial gains and losses that may then need to be recognized. There appears to be a bias towards immediate recognition without fully understanding the benefit and pension obligations in Canada.

.../2

Impacts on plan sponsors

The immediate recognition method suggested in the invitation to comment will introduce significant volatility into the financial statements that will not inform the plan sponsors of the true nature of their pension plan obligations. In combination with an arbitrary discount rate, this accounting could result in poor decisions and undesirable behaviours in pension plan management. Pension plans will not be accounted for in a way that reports how effectively our fully funded pension plans really operate.

Undermining representational faithfulness

The invitation to comment does not address the long settlement period under which pension plan obligations resolve. By moving to a solvency based estimate for obligations, we are not faithfully representing the going concern of pension plans in the financial statements. By ignoring the economic substance of pension activities, governments could be grossly overstating their pension obligations and misrepresenting the true cost of pension plans. No consideration has been given to addressing the contingent nature of plan sponsor guarantees and whether that would better represent certain pension plan characteristics to the users.

Consideration for the users of financial statements

The introduction of volatility undermines the expectations of the public interest. In very large, fully funded plans, volatility can easily swamp the operating results causing pension plans to look more expensive than history has shown us they really are. Volatility dilutes the informative value of government's financial statements when it overwhelms the operating results to the extent that the statements become irrelevant to the users or cannot be compared to the government's budget. That would be a significant obstacle under a legislated balanced budget regime that supports government's transparency and accountability to the public.

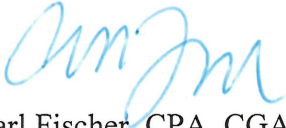
Further considerations

We are concerned about the appropriateness of establishing an arbitrary discount rate that does not align with the nature of pension plans. The discount rate is an integral part of the recognition of benefit obligations and it would be unfortunate to isolate the discussion of one without understanding the impact of the other. We do not agree that focusing on the mechanics of the accounting before understanding the factors that influence the broad continuum of pension plans in Canada will result in a representative standard.

Responses to specific questions posed in the invitation to comment are attached. Should the Public Sector Accounting Standards Board have any comments or questions, please contact me at 250-356-9272 or by e-mail: Carl.Fischer@gov.bc.ca, or Diane Lianga, Acting Executive Director, Financial Reporting and Advisory Services Branch, at 250-387-9242 or by e-mail: Diane.Lianga@gov.bc.ca.

On behalf of the Government of British Columbia,

Sincerely,



Carl Fischer, CPA, CGA
A/Comptroller General
Province of British Columbia, Canada

Enclosure

cc: Diane Lianga, A/Executive Director
Financial Reporting and Advisory Services Branch

Appendix

Question relating to the need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

We agree that it is timely for PSAB to review the provisions of the employment benefits standards because plan designs have changed significantly since the standards were first brought into effect. The review needs to go beyond just looking at the deferral provisions and should begin with gaining an understanding of the evolution of the current Canadian pension environment.

The characteristics of senior government pension plans and accumulating or vesting benefits vary widely between plans and between jurisdictions. Plans have become increasingly complex since the current standard came into effect. Retirement benefit accounting now goes beyond just the difference of defined benefit and defined contributions, to arrangements of joint trusteeship, risk sharing, post sponsorship, target benefit and fully sponsored plans. Recognition should consider the economic substance of those different plan designs and one method may not fit all arrangements.

Questions relating to the components of change in the accrued benefit obligation and plan assets

2. a) Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting of the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

It is important to recognize that changes in assumptions are forward looking whereas the experience adjustments are backwards looking and they should be considered separately.

Other economic assumptions are the fundamental building blocks of the actuarial valuation and are based on 30 year assumptions. The long term purpose of these assumptions should not be confused with short term changes.

The full nature of salary changes is not reflective in this invitation to comment. Short term salary changes impact the valuation because they help determine contributions to the plan asset. Long term salary variances affect the valuation because they help determine the estimated obligation of benefits to retirees.

The discount rate, noted to be considered for review at a later date, has an integral role to play in the recognition of the accrued benefit obligation. The discount rate is highly dependent on the plan design and funded status, and to review it in isolation of the key components of the obligation may result in arriving at the wrong conclusion.

b) Are there any additional components that should be separately identified and considered?

Disability pension payments are separately identified in the actuarial valuations of our four plans because their characteristics have a different impact on the valuation than normal pension payments.

- 3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?**

The benefits of the expected/unexpected approach are unclear and this approach would work differently depending on the plan design and funded status. Unintended consequences may arise by reviewing the changes in plan assets in isolation of the plan design and characteristics.

The unrealized/realized approach is conceptually consistent with other PSAS standards.

- 4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?**

The design and unique characteristics of a pension plan might dictate different views of the components of change. Recognition should consider that investment return components may be different depending on the plan design, such as joint trusteeship plans and fully sponsored plans. Additionally, the plan rules pertaining to the investment components of fully funded plans could vary to those plans that are unfunded or partially funded.

- 5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?**

Within the noted sections, there are numerous references that support immediate recognition because the components of accrued benefit obligations "do not change significantly". A slight change in one assumption can have a material effect on the financial statements depending on the size of those plans and complexity of the plan design.

As mentioned previously, the full nature of salary changes is not reflected in this paper. Short term salary changes impact valuation because they help determine contributions to the plan asset. Long term salary variances effect the valuation because they help determine the estimated obligation of benefits to retirees.

The invitation to comment does not discuss the long term (30 year+) settlement period of the liability and how such a long range obligation should be best represented for users in the financial statements.

Questions relating to the alternatives and considerations not identified

- 6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?**

Pension plans are long-term liabilities based on very complex calculations using 30 year assumptions on a going concern basis, with interim short term corrections. It is important to consider the role that contributions play as the mechanism to resolve short term losses.

- 7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?**

There has been no consideration given in the document to the funding basis of pension plans.

Our pension plans are designed to approximate zero over the longer term. Consideration should be given to whether contingent liability disclosure would be more appropriate to reflect the substance of the sponsor's guarantee should certain future events confirm the existence of a liability today.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

Further consideration should be given to the long term 30 year settlement period of pension plans and an amortization period that more closely aligns to the underlying substance of the changes in obligation.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

We have not identified any alternatives for valuing plan assets however the design and unique characteristics of a pension plan might dictate asset strategies.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

Deferred recognition is a balanced approach that recognizes the longer term settlement period of the liability and recognizes that changes can occur over the longer term. It is also the method that is consistent with the funding basis, which could be argued to be a relevant value for a pension plan.

Immediate recognition results in unrealized short term fluctuations that do not represent the long term nature of pension plans. Immediate recognition will make pension plans look more expensive than they are, which does not serve the users of the financial statements.

Questions relating to the accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

The changes in the value of the accrued benefit obligation and plan assets should be recognized after consideration of the plan design and funded status.

Of the alternatives provided, our pension plans would be best represented under a deferred recognition alternative that aligns with the substance of the components.

12. On what basis should plan assets be valued?

Plan assets valued at market-related values would best represent our asset class based portfolio management strategy. Due to the long term nature of pension obligations, a significant portion of plan assets are not actively traded, but invested in longer term strategies.

Questions relating to the current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Our plan assets are measured at market-related values. Market-related value is determined as the difference between the actual rate of return on market values and the assumed return at a rate equal to the assumed real return rate plus the year-over-year change in the CPI, amortized over a five year period.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

We do not receive actuarial valuations for post-employment benefits and compensated absences that do not vest or accumulate because there is no liability at the reporting date.

Actuarial gains and losses for post-employment benefits and compensated absences that do vest or accumulate are recognized immediately because the benefits are separable and the amounts are not materially significant.

Question relating to project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

Concerns regarding the sequence of review

The approach to the review of the employment benefit standards causes concern because it intends to prescribe recognition before considering the measurement (discount rate) and before defining the scope (plan types). It is important to first consider the nature and context of the Canadian pension environment because of the broad continuum of obligations resulting from government participation in benefit and pension plans. Understanding these various plans will then provide the needed background to comprehensively discuss the discount methodology, a key factor in the calculation of the actuarial gains and losses that may then need to be recognized. There appears to be a bias towards immediate recognition without fully understanding the benefit and pension obligations in Canada.

Impacts on plan sponsors

The immediate recognition method suggested in the invitation to comment will introduce significant volatility into the financial statements that will not inform the plan sponsors of the true nature of their pension plan obligations. In combination with an arbitrary discount rate, this accounting could result in poor decisions and undesirable behaviours in pension plan management. Pension plans will not be accounted for in a way that reports how effectively our fully funded pension plans really operate.

Undermining representational faithfulness

The invitation to comment does not address the long settlement period under which pension plan obligations resolve. By moving to a solvency based estimate for obligations, we are not faithfully representing the going concern of pension plans in the financial statements. By ignoring the economic substance of pension activities, governments could be grossly overstating their pension obligations and misrepresenting the true cost of pension plans. No consideration has been given to addressing the contingent nature of plan sponsor guarantees and whether that would better represent certain pension plan characteristics to the users.

Consideration for the users of financial statements

The introduction of volatility undermines the expectations of the public interest. In very large, fully funded plans, volatility can easily swamp the operating results causing pension plans to look more expensive than history has shown us they really are. Volatility dilutes the informative value of government's financial statements when it overwhelms the operating results to the extent that the statements become irrelevant to the users and cannot be compared to the government's budget. That would be a significant obstacle under a legislated balanced budget regime that supports government's transparency and accountability to the public.

Further considerations

We are concerned about the appropriateness of establishing an arbitrary discount rate that does not align with the nature of pension plans. The discount rate is an integral part of the recognition of benefit obligations and it would be unfortunate to isolate the discussion of one without understanding the impact of the other. We do not agree that focusing on the mechanics of the accounting before understanding the factors that influence the broad continuum of pension plans in Canada will result in a representative standard.

Question relating to participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Our plans operate independent of government and government is only a contributor. If it would be valuable, we would be willing to approach the Pension Secretariat and the four Pension Boards on behalf of PSAB.

Response Questionnaire
To be considered, comments must be received by
March 3, 2017

Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255
Invitation to Comment

PSAB welcomes comments on all aspects of the Invitation to Comment.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name:

Duri Lee

Organization:

The City of Calgary

E-mail:

Duri.Lee@calgary.ca

General comments:

The City of Calgary ("The City") would like to thank the Public Sector Accounting Board ("PSAB") for the opportunity to provide comments on the deferral provisions in sections PS 3250 and PS 3255.

Need for review of deferral provisions

1. Do you agree that PSAB needs to consider whether the deferral provisions in the standards are appropriate?

Yes, The City agrees with PSAB's decision to consider the applicability of the deferral provisions based on changes that have been made by other standard setters.

Components of changes in the accrued benefit obligation and plan assets

- 2a. Which, if any, of the components of the changes in the value of the accrued benefit obligation identified in Chart 2 and paragraphs .015-.056 should be considered separately in determining the accounting for the changes in the accrued benefit obligation in the statement of operations and the statement of financial position?

We acknowledge that certain actuarial assumptions, such as demographic assumptions, may be subject to minimal changes in comparison to other assumptions, such as the discount rate due to governments' long-term experience with its membership group. The City would, however, like to disagree in assessing each component on a standalone basis when determining the accounting treatment.

Based on The City's experience, actuarial assumptions are often interrelated and as a result, assessing them on an isolated basis could result in the establishment of irrelevant or unrealistic expectations. In addition, obtaining the right to apply deferrals on specific assumptions could create an opportunity for organizations to act imprudently. As a result, The City would like to encourage PSAB to continue allowing organization to use the deferral treatment on all components.

2b. Are there any additional components that should be separately identified and considered?

No, please see our response for 2(a).

3. Which view of how to break down the investment return component of the changes in the value of plan assets identified in paragraphs .057-.065 is more appropriate for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

Use of realized and unrealized gains and losses may ultimately result in more verifiable information for external users to consider, especially as the changes in the value of plan assets will be dependent on the occurrence of actual events and transactions. This approach, however, is considered to be too restrictive from The City's perspective as the time value of money in plan assets and accrued benefit obligations is not considered.

The City generally supports the approach to break down the investment return component using expected return and unexpected return. This approach will ultimately be more practical for the organization, especially as experience adjustments will be accounted consistently with present practices.

4. Are there any other views of how to break down the investment return component of the changes in the value of plan assets that should be considered for determining the accounting for the changes in plan assets in the statement of operations and the statement of financial position?

No, The City does not have other views of how to break down the investment return component of the changes in the value of plan assets.

5. Are there any additional aspects of the components of the changes in the value of the accrued benefit obligation and plan assets that should be considered for determining their accounting in the statement of operations and the statement of financial position that have not been identified in paragraphs .018-.065?

No, there are no additional aspects that should be considered for determining the accounting of the changes in the value of accrued benefit obligation and plan assets.

Alternatives and considerations not identified

6. Are there any significant considerations for determining the accounting for each component of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .070-.091?

PSAB is advised to further clarify whether any of the changes brought forward by new standards, such as Financial Instruments (PS 3450) and Financial Statement Presentation (PS 1201), will impact some of the recognition alternatives that are currently being considered.

In particular, PS 1201 will require governments to include a statement of remeasurement gains and losses for fiscal periods beginning on April 1, 2019. In paragraphs .078-.080, PSAB explained that changes in the value of plan assets would qualify as a revenue or expense. This view is supported by The City, but it is strongly suggested for PSAB to provide further clarifications in PS 1201 to ensure that changes in plan assets due to the use of market values do not qualify as a disclosure requirement under the statement of remeasurement gains and losses.

7. Are there any alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position that have not been identified in paragraphs .092-.109 and .115-.120?

No, The City is not aware of other alternatives for recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations and the statement of financial position.

8. Are there any alternative amortization periods and/or amortization bases under the deferred recognition alternative that have not been identified in paragraphs .110-.114?

No, The City is not aware of other alternative amortization periods and/or amortization bases that could be used for deferral provisions.

9. Are there any alternatives for valuing plan assets that have not been identified in paragraphs .121-.128?

No, The City is not aware of alternatives for plan asset valuation methodologies other than those identified in paragraphs .121-.128.

10. Are there any significant arguments relating to any recognition alternatives in the statement of operations (paragraphs .092-.109) and the statement of financial position (paragraphs .115-.120), and plan asset valuation options (paragraphs .121-.128) that have not been identified?

No, The City agrees with arguments presented for recognition alternatives in the statement of operations and statement of financial position, as well as the plan asset valuation options.

Accounting for each component of changes in the accrued benefit obligation and plan assets

11. How should each component of the changes in the value of the accrued benefit obligation and plan assets be recognized in the statement of operations and the statement of financial position?

The City would like to continue amortizing actuarial gains and losses over the expected average remaining service life for each of the organization's employee groups regardless of the component.

Actuarial gains and losses for certain plans in The City's accrued benefit obligation balance have been immediately recognized in The City's annual surplus since 2013. For the past several years, The City noted that these gains and losses have varied significantly on a year-to-year basis. These plans are currently composed of smaller membership bases. However, in the event the immediate recognition method is used for all plans and membership is increased, then the gains and losses generated by the larger employee groups could have substantial financial impacts on the annual surplus or deficit. As a result, the immediate recognition method (if applied to all plans) is considered to be undesirable.

It is also important to note that The City does not support the use of the "no recognition" method in which the actuarial gains and losses are presented separate from annual surplus or deficit in the statement of operations. The use of this approach would ultimately reduce organizations' accountability in ensuring that their benefit obligations are appropriately funded and is therefore, not supported.

12. On what basis should plan assets be valued?

Current accounting practice

13. Do you measure plan assets at market value or market-related value? If market-related value, please describe how it is determined.

Question #12:

The City would like to suggest for plan assets to be valued using their market values given that this approach would maximize consistency and comparability of information for external users.

As PSAB noted, market-related values can be beneficial in that this valuation approach would reduce an organization's exposure to impermanent changes in the marketplace. Current standards, however, do not provide clear guidelines as to what is considered an acceptable deviation between market value and market-related value. PS 3250.035 only suggests that market-related values should "closely approximate economic value in a manner that can minimize short-term fluctuations." It is, therefore, a possibility for some subjective assumptions to be embedded within the market-related valuation approach that could reduce the comparability and consistency of information for external users.

On the other hand, market value is comparable and consistent. Given that the valuation information is readily accessible there is minimal likelihood of two organizations arriving at different values.

Question #13:

The City's plan assets are measured at market value at each reporting date.

14. What is your accounting policy of recognizing actuarial gains and losses (deferred or immediate recognition) arising from post-employment benefits and compensated absences that do not vest or accumulate? Please explain why that accounting policy was chosen.

Please refer to our response to question #11. In general, for certain plans, The City elected to use immediate recognition of actuarial gains and losses given that the membership size associated with those plans were considered to be small enough to not create significant risks in future periods.

Project issues not identified

15. Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?

No, there are no other issues that The City would like PSAB to consider at this time.

Participation in future field tests

16. Would you be interested in participating in future field tests, which may involve using actual benefit plan data to identify the financial implications of various alternatives?

Yes, The City is open to consider participating in future field tests, but more information is requested to ensure that the entity has sufficient resources in place to assist PSAB.

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