



Office of the Provincial Controller

Status of Key Accounting Issues

January 13, 2017

Briefing to Secretary of Cabinet

Purpose



- To provide an update on key accounting issues with significant potential fiscal impact

Summary



	Issue	Fiscal impact in 2016-17	Reflected in FES	Multi-year impact
1	Pension accounting	\$2.2 Billion	Yes	Yes
2	IFRS-US GAAP differences – OPG and H1	\$1 Billion	No	Yes
3	Cap & trade proceeds	\$478 Million	No	Likely not
4	Metrolinx MOU with City of Toronto	TBD	No	Yes
5	Year-end transfer payments	TBD	No	Yes
6	Changes to consolidation (how and what)	N/A	No	Yes
7	Follow up audit – contaminated sites	TBD	No	Yes
8	Other GBE issues (H1 sale; unrealized gains/losses)	TBD	No	Yes

Key issues and status



1. Pension Asset Accounting

- Fiscal impact included in FES based on AG's position (\$2.2 Billion in 2016-17, higher amounts in out-years)
- **Status:**
 - Panel conclusions to agree with accounting for OTPP and OPSEUPP; report on HOOPP and CAATPP to follow
 - Work streams in place re: communication plan following Panel's completion of report, including potential sharing of draft by Panel with AG
 - Procurement underway for external actuarial advisor for valuation analysis
 - Updated estimates of pension liability and expense expected in February
 - Options identified contingent on AG's response to Panel's recommendations

2. Consolidation reporting basis for Hydro One and Ontario Power Generation

(US GAAP vs. IFRS)

- FES reflects US GAAP based results for OPG and H1
- Net difference between US GAAP and IFRS for 2016-17 could be as high as \$1Billion (increase to deficit), depending on basis of estimation used for OPG's nuclear asset retirement obligation
- **Status**
 - Estimated impacts received from OPG over fiscal planning period
 - OPCD working with OPG and H1 on supplementary audit requirements
 - Options for 2016/17 under assessment, including conversion to IFRS, legislated accounting, standard setter engagement

Key issues (continued)

3. Cap and Trade accounting (accounting for auction proceeds)

- \$478 M auction proceeds reflected in FES for fiscal 2016-17
- First auction scheduled for March 22, 2017; Emission Allowances (EAs) transferred to participant account several weeks later (likely in fiscal 2017-18); preliminary accounting assessment – revenue is recognized when EAs are transferred to participant accounts, meaning revenue recognized in fiscal 2017-18
- **Status:**
 - Initial, high level consultations with OAG commenced in December
 - Detailed discussion with OAG scheduled for January 16th with anticipated OAG response to accounting by end of January

4. Accounting for Transit Assets (Metrolinx MOU with City of Toronto)

- FES continues to assume assets will be Provincially controlled (TCA, depreciation impacts vs. transfer payments)
- Accounting risk – if assets assessed as non-controlled, assets would be written off of Province's balance sheet and considered transfers to the City of Toronto
- **Status:**
 - OPCD stakeholdering with Metrolinx ongoing
 - Discussions expanded to also include PwC (Metrolinx's external auditor) and MTO
 - Metrolinx accountability to identify potential accounting risks clarified
 - Metrolinx may engage PwC to issue an accounting opinion based on Agreement in Principle

Key issues and status



5. Accounting for transfer payments (year-end transfers)

- Audit issues during 2015-16 Public Accounts reversed planned accounting for Green Investment Fund expenditures (\$325M)
- Expenses originally planned to be reported in 2015-16 to be reported in 2016-17 (reflected in FES)
- Status:
 - No anticipated year-end transfers expected at this time
 - Updates on 2015-16 experience provided to financial community
 - OPCD met with OAG to explore opportunities to clarify guidance for 2016/17 and future years
 - Once confirmed, revised guidance will be communicated by OPCD

6. Consolidation presentation (minimal fiscal impact)

- AG preference for line by line consolidation of hospitals, school boards and colleges on statement of operations, and consolidation of Children's Aid Societies
- Fiscal impact of changes immaterial with no significant enhancement to transparency; however, change in presentation would impact key performance indicators (e.g. IOD)
- Status:
 - OPCD stakeholdered with contacts from sector ministries, CPD, PEMD to assess potential implications for 2017 Budget
 - Working through alternatives re: timing of changes for both issues

Key issues and status



7. AG Follow-up audit on VFM audit for contaminated sites

- No specific fiscal risks identified to date for 2016-17, consistent with results of 2014-15 and 2015-16 Public Accounts audits)
- **Status:**
 - OPCD and OIAD discussing readiness review by OIAD in advance of the OAG's follow up audit to provide assurance re: completeness of liabilities as of March 31, 2017

8. Accounting for other GBE transactions(H1 sale, Brampton Hydro sale, etc.)

- Accounting for Hydro One HoldCo as a GBE
- Tranche 2 of Hydro One sale – included sale of shares to OPG (related party) – gain on sale of those shares will be deferred
- Brampton Hydro sale expected in February
- **Status:**
 - OPCD assessing and documenting analysis to share with OAG
 - Any issues to be expedited for resolution by end of March, if possible