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 16^{th} 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