TBS

Office of the Provincial Controller

Accounting Risks/Pension Panel

January 16, 2017

Discussion with Minister's Office

Purpose

- To discuss process regarding resolution of accounting risks with AG
- To discuss communication of Pension Panel results with AG and publicly

Summary

	Issue	Fiscal impact in 2016-17	Resolution discussed with AG & status
1	Pension accounting	$2.2 Billion	No – see additional slides re: scenarios for engagement with the AG
2	IFRS-US GAAP differences – OPG and H1	$0.1 - $1 Billion	No discussion with OPCD regarding basis of reporting for 2016/17 Public Accounts; suggest starting the conversation during planning meeting scheduled for January 17, 2017
3	Cap & Trade proceeds	$478 Million	Yes – two discussions with OAG (last on Jan 16/17); AG's accounting position different than OPCD's but appears same as Quebec (OPCD following up). Certification date critical to AG's method. MOECC aware.
4	Metrolinx MOU with City of Toronto	TBD	No – suggest including item on agenda for planning meeting on January 17, 2017 and engaging AG after we have discussed results with Mx auditors of a reviewe draft of binding MOU with City.
5	Year-end transfer payments	TBD	Yes – discussions commenced in December regarding revised guidance. OPCD and OAG to document understanding in early 2017. Impact on 2017 minimal, if any as no YERs anticipated.
6	Changes to consolidation presentation ~~(how and what)~~	N/A	No – OPCD has completed analysis and is briefing Associate DM on January 26, 2017
7	Follow up audit – contaminated sites	TBD	OIAD and OPCD collaborating on TOR.
8	Other GBE issues (H1 sale; unrealized gains/losses)	TBD	No – OPCD working through analysis with goal to provide all analysis to OAG by March 31
9	Earlier release of Public Accounts	N/A	Yes – OPCD planning document shared with OAG on January 11, to be discussed on January 17

Auditor General Engagement Strategy

Over the next several weeks, the Province will undertake discussions with the AG regarding:

- Results of the Panel’s work
  - Chair of the Panel will provide an advance copy of the report and offer to meet with the AG
  - Staff will continue to assess what changes if any, could be made re: relationship with sponsors that would align with AG’s view
- Plan to adopt IFRS for consolidation of OPG and Hydro One
- Understanding other concerns of the AG that Province is able to address (e.g. consolidation processes)

Goal of discussions is to determine a path forward where the AG and Province are able to agree on resolution of known issues and the AG is able to issue an unqualified opinion on the 2016-17 Public Accounts.

Fiscal Impact Overview

Net Pension Assets	Fiscal impact to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21*
Current AG's position Expert Panel Position (reverse write off of OTPP and OPSEUPP; HOOPP and CAATPP TBD) (Estimates to be updated in mid-February,2017)	- ($ 2.2B)	- ($2.7B)	- ($3.1B)	- ($3.1B)	- ($3.1B)

- Panel has completed its work on OTPP and OPSEUPP; work on HOOPP and CAATPP is ongoing
- OTPP/OPSEUPP
  - Panel agrees with recognition of the net assets on the basis that (a) net assets are economic resources available to the sponsors to reduce future contributions or improve benefits; (b) unilateral control is not necessary for asset recognition; (c) recognition of the assets faithfully represents the financial position of the Province and the substance of the sponsors' deal
  - Panel believes that no valuation allowance is required for either asset

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal impact to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21*
Current FES Preferred Approach (smoothed IFRS impact)** High Impact (non-smoothed IFRS impact)**	- $75 M $1B	- $425M $375M	- $525M $400M	- $675M $400M	- $675M $400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach.*

- In 2015-16, the Province consolidated H1 & OPG using US GAAP; differences between US GAAP and IFRS were immaterial.
- Public Sector Accounting Standards (PSAS) directs consolidation of these entities using IFRS; in 2016 Public Sector Accounting Board (PSAB) declined a request from the Province to expand the guidance to permit use of US GAAP for consolidation; AG agrees that IFRS is required for consolidation
- IFRS-US GAAP differences will become material as early as 2016-17, therefore continuing to consolidate using US GAAP is no longer appropriate
- Potential IFRS-US GAAP differences could increase materially if rate regulated accounting is rejected under IFRS (decision expected to take several years).

Note – The amounts presented for both issues are based on prior year/preliminary estimates – estimates will be updated by end of February. Other relevant accounting issues are outlined in the appendix.

Fiscal Risks

Other relevant accounting issues include:

- Timing of cap & trade proceeds
  - **Risk**: First auction in 2017 straddles the year-end with respect to the auction date vs. the settlement of the auction adding complexity to the accounting in the current year. In addition, this is a new transaction stream for the Province.
  - **Risk Mitigation**: engaged external advisors; working through timing with AG

- Accounting implications of Metrolinx agreement with the City of Toronto;
  - **Risk**: If control criteria not met for accounting purposes, the Province will have to write off capitalized costs (immediate expense impact), and future investments/transfers will be accounted for as expenses.
  - **Risk Mitigation**: working group formed to ensure binding agreement with City preserves accounting for assets by the Province

- Transfer payment expense recognition (timing).
  - **Risk**: Status of transfer payment agreements and timing of cash flows related to year-end TPs expected to impact timing of expense recognition, based on change in AG view on GIF TPs
  - **Risk Mitigation**: communication of change in AG interpretation to stakeholders